IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Trade and Investment Office (TIO)	B. Was Evaluation Scheduled in Current FY annual Evaluation Plan?	C. Evaluation Timing
Mission or AID/W Office : USAID/Dominican Republic (ES# 517-0254)	Yes [X] Slipped [ ] Ad Hoc [ ] Evaluation Plan Submission date: FY/94 4Q	Interim [X] Final [ ] Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated (list the following for project(s) or program(s) evaluated; if not applicable, list title an date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
517-0254	Micro and Small Business Development Project	07/1990	06/97	$7,250	$7,250

ACTIONS

E. Action Decisions Approved By Mission or AID.W Office Director Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
Acceptance of Evaluation Report	Douglas Ball	8/30/94

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Douglas Ball, TIO	Mario Dávalos	Luis G. González B., /PDO	Marilyn Zak, USAID/DR
Signature	D Ball		[illegible]	Marilyn Zak
Date	9/9/94		[illegible]	18 Sept 94

H. Evaluation Abstract (Do not exceed the space provided)

The mid-term evaluation of the Micro and Small Business Development Project (Project # 517-0254) was conducted by a 3 person evaluation team from J.E. Austin Associates in early 1994. The project is being well managed and has been successful in meeting its mid-term targets. The Fondo para el Financiamiento de la Microempresa (FondoMicro/FM) has contributed in an important way to supporting ISME in the Dominican Republic through credit, TA, and research. FM credit has helped NGOs to expand their lending activities. Technical assistance has enabled a number of NGOs to greatly improve their credit management and recovery capabilities. Research and publications seem to have had a great impact as well. Not all targets have been met for credit volume because of the bottlenecks at the NGO level where more time and TA are required than was assumed in the project paper. FM has not proven to be a funnel for other donors nor the necessary bridge between NGOs and the capital markets. The project has an excellent benefit/cost ratio, will most likely be sustainable long after project termination, and is having a favorable impact on women. However, an NGO approach alone is inadequate to meet the needs of the ISME sector. This is especially true for the needs of "small" business which still fall between the cracks of "micro" and "medium/large" commercial borrowers. Something must be done to address these needs through formal banks and other financial institutions. This is especially true in the context of the current financial reforms which provide both new obstacles and opportunities. Eight specific recommendations to FM and 11 specific recommendations to USAID are provided to help ensure that the project continues on its successful track. Beyond this, the evaluation provides USAID/Dominican Republic with an opportunity to go beyond the considerable successes of the current project and consider ways to make an even broader impact on the democratization of credit in the Dominican Republic in the context of the current financial sector reforms, a purpose consistent with the goal of achieving sustainable growth with broad participation in the benefits of that growth.

COSTS

I. Evaluation Costs

1. Evaluation Team Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Kevin Murphy, Kim Sayers, Karen Wade	J.E. Austin Associates	517-0254-C-00-4059-00	$45,169	Project Funds

2. Mission/Office Professional Staff Person-Days (Estimate) N/A

3. Borrower/Grantee Professional Staff Person-Days (Estimate) N/A

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of Activity(ies) evaluated
- Findings and conclusions (relate to question)
- Principal Recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
USAID/DR	7/30/94	Interim Eval.;Micro & Small Bus. Dev.;8/94

♦ Purpose of Activity Evaluated

To develop FONDOMICRO into a viable financially self-sustaining organization which can efficiently provide the financing and technical assistance needed by NGOs operating credit programs which directly service the informal small and microenterprise sector.
To date:
a) Institutional Strengthening of FondoMicro a major project purpose has been achieved.
b) NGO borrowers in FM portfolio. FM has met minimum end of project targets for number of NGOs in its portfolio. FM currently offers credit to 6 NGOs compared to the end of project targets of 6-12 NGOs.
c) ISMEs with access to credit. FM has already met EOP targets for ISMEs with access to credit, but targets ranges were set too broadly.

♦ Purpose of Evaluation.

In July of 1990, USAID/DR signed a seven year US$7.25M Cooperative Agreement with FondoMicro (FM) for the purpose of providing credit and technical assistance through NGOs to the small and microenterprise sector in the Dominican Republic and to strengthen and develop credit delivery mechanisms to that sector. This, in turn, would combat the high unemployment and underemployment that characterizes the Dominican Republic's economy. This mid-term evaluation is designed to evaluate the progress to date, identify obstacles, and present recommendations.

♦ Methodology Used for this Study.

The standard J.E. Austin Associates project evaluation methodology, which conforms closely to USAID evaluation guidance, was used in this study (Exhibit 1). The specific tasks are to ascertain progress to date in meeting project objectives, evaluate the management effectiveness of FM, identify problem areas and constraints, and recommend solutions. A total of 9 person-weeks were spent in-country by the three person team.

♦ Findings and Conclusions

1) FM channels credit through 6 NGO lenders who in turn assist about 20,000 micro-enterprises in the Dominican Republic. At mid-point, about US$4.6M had been lent, only 61% of the year three target. Credit disbursement by the end of the project is also likely to undershoot EOP targets. The Project Paper overestimated the number of NGOs which could qualify for credit and underestimated the amount of TA and time required to enable these NGOs to meet minimum standards to qualify for credit.
2) FM credit quality is excellent. There have been no losses and no arrears to date. FM has mechanisms in place for continually monitoring credit quality and has shown an ability to act if it judges that NGOs are not following guidelines on loan recovery.
3) The TA provided by FM to NGOs has been reported as excellent. Training programs have also been reviewed favorably.
4) The 6 NGOs funded by FM created or strengthened 37,511 jobs in 1993. Of these, 8,742 were new jobs created that year.
5) The project is having a positive impact on women. Women owners represent 47% of all credit recipients (6% are jointly owned). Women represent 30% of the value of the FM portfolio.
6) FM will easily achieve financial viability on a self-sustainable basis by the end of the project. It has generated $750,000 in profits to date and will probably have a total capital base of US$5M by end of project.

♦ Principal Recommendations

A. Recommendations to FM

1. Maintain lending rate policies. FM's credit price and quality policies are justified and should be maintained to protect its capital, grow its base of lending, and to set market oriented and high credit quality standards for the industry.

2. Continue policy of using lowest cost funds first. The FM policy of using lowest cost (USAID/GODR) funds is sound.

agrees with FM that, apart from recommendation #4, FM should focus T.A. on those NGOs which show promise of a greatly expanding portfolio. The ultimate goal is the number of ISMEs receiving credit not the ultimate number of NGOs providing it.

4. Continue the excellent T.A. program but add one person to the T.A. staff responsible for networking and assisting smaller NGOs. (Note: FM and USAID/DR reported in June that FM has already acted on this recommendation). The cost of this one additional person would not be great nor should it take away from or dilute the primary FM role as a credit (vs. TA) provider.

5. Include in future reports to USAID the following indicators disaggregated by gender:
   - Average loan amounts % of total disbursement
   - % of loans: under US$300; $300-1600; over $1600
   - # and % of new loans vs. repeat loans
   - Sectoral breakdown (commerce, industry, service)
   - Delinquency rates
   - Employment generation

6. Seek additional funding to continue research and T.A. If the project succeeds, it will have demonstrated the utility of T.A. which should be continued and directed to additional NGOs. Funding should also be sought for a continuation of the research activities.

7. Promote the emergence of a Small Business Bank. The evaluation team agrees with the FM Director and Board Members who feel that they have a role to play in promoting the emergence of a small business bank. FM expertise can make an important contribution to this initiative in various ways. FM can make formal requests to international donors and is in a position to dialogue with local and international providers of capital.

8. Clarify acceptable uses of project reflows and follow USAID Counsel on the Matter. FM should not let any disagreement over this issue detract from the shared interest which FM and USAID hold in promoting the democratization of credit in the Dominican Republic. If FM wishes to use profits from operations to invest in a small business bank, it should seek immediate and formal clarification of the here-to-date informal questions which have been raised regarding whether this does or does not violate any terms of agreement between FM and USAID.

B. Recommendations to USAID

1. Drop the issue of FM access to commercial bank loans and revise input schedule accordingly. FM should not experience great difficulty in getting access to the capital from different sources when the need arises. The most important thing to monitor is that GODR financing (at the relatively low cost of 12%) is received on a timely basis once FM has sufficient credit demand to use it.

2. Revise EOP targets for Outputs, Purposes and Goals.

3. Revise key project assumptions. USAID assumptions at the outset of this project were incorrect and USAID should now revise those that were written into the project paper.

4. Monitor the project more carefully if there is change at the top of FM.

5. Clarify acceptable uses of project reflows. USAID should immediately clarify its legal position as well as its advice regarding the potential use of FM profits (project "reflows") for the purpose of investing in a small business bank. The evaluation team believes that a small business bank is needed and that FM could have an important role to play in helping to get this off the ground.

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in the micro-enterprise area by playing a catalytic role in sparking or pumppriming a response to the needs of the small enterprise sector which are not being effectively addressed under the current project.

7. Finance a serious feasibility study for small business banking.

8. Include existing or former development banks and the Credit Union Association (AIRAC) in dialogue on this issue. These groups know a lot about channeling credit to small business and can help USAID to shape its efforts. An effort to get credit to small enterprise in rural areas should involve AIRAC.

9. Utilize centrally funded USAID programs to support ISME efforts here. Specifically, USAID/DR should investigate the possibility of utilizing the USAID/W loan guarantee program and/or centrally funded buy-ins and technical assistance as a way of supporting the establishment of small business banking.

10. Revisit the project in one year to measure progress.

11. Dialogue with other donors.

♦ **Lessons Learned from the FM Project & Worldwide ISME/Credit Projects**

1) A second tier (FM) credit strategy will only work if there are a number of first tier NGOs already at or close to the take-off stage. FM success to date would not have been possible without ADEMI and ADOPEM.
2) Don't underestimate the time and effort required to make ISME NGOs credit worthy. The amount of TA required to get NGOs to meet the Project Paper pre-conditions for credit was underestimated.
3) Local TA for NGOs is preferable to costly foreign TA.
4) The combination of solid research, quality publishing and alliance with opinion makers proved particularly effective.
5) The project confirms previous USAID "Lessons Learned" reports. The project confirms previous USAID lessons on the importance of stressing sound credit practices, the avoidance of subsidy, and rigorous loan recovery. As a result, the project will be selfsustaining.
6) NGOs alone cannot provide a full response to the ISME sector; a broader approach is needed.
7) Many project assumptions did not prove true.
8) Differentiate among three kinds of microenterprise. Several recent studies have shown that the microenterprise sector has important subsegments. One segment is self-employed for survival sake (street vendors), another is self-employed for convenience, and yet another is truly entrepreneurial and seeks continually to grow, take risks and expand.
9) OECD has identified key issues for donor support to microenterprise. OECD has suggested that donors coordinate their efforts, include a focus on broader policy environment issues, ensure open and flexible programs that accommodate change, respond to local initiatives, channel assistance through self-help groups in amounts that can readily be absorbed, expand local projects to the national level, and create micro-entrepreneur communities. FM could benefit from greater donor coordination.

MID-TERM EVALUATION

MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

PROJECT NO. 5170254

Final Report

Prepared for: USAID/ Santo Domingo

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July 30,1994

viewing the world from a different perspective

J. E. AUSTIN ASSOCIATES

MID-TERM EVALUATION: FINAL REPORT

MICRO AND SMALL BUSINESS DEVELOPMENT PROJECT

PROJECT # 5170254

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ACRONYMS

ADEMI	ASSOCIATION FOR THE DEVELOPMENT OF MICROENTERPRISES
ADEPE	ASSOCIATION FOR DEVELOPMENT ESPAILLAT PROVINCE (MOCA)
ADOPEM	DOMINICAN ASSOCIATION FOR THE DEVELOPMENT OF WOMEN
AID	AGENCY FOR INTERNATIONAL DEVELOPMENT
AIRAC	ASSOCIATION OF RURAL SAVINGS AND LOAN COOPERATIVES
CNHE	NATIONAL BUSINESS COUNCIL
DAI	DEVELOPMENT ALTERNATIVES INC.
D.R.	DOMINICAN REPUBLIC
EDUDELC	EDUCADORES UNIDOS (PVO WORKING WITH POOR BARRIOS IN SANTIAGO)
EOP	END OF PROJECT
FONDESA	FONDO DE DESARROLLO, S.A. (SANTIAGO BASED MICROENTERPRISE LENDER)
FM	FONDOMICRO
GODR	GOVERNMENT OF THE DOMINICAN REPUBLIC
IAF	INTERAMERICAN FOUNDATION
IDB	INTERAMERICAN DEVELOPMENT BANK
ISME	INFORMAL SMALL AND MICRO ENTERPRISE
JAA	J.E. AUSTIN ASSOCIATES
LOP	LIFE OF PROJECT
M	MILLIONS
MSI	MANAGEMENT SCIENCES INTERNATIONAL

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MUDE	MUJERES EN DESARROLLO (PVO WORKING WITH WOMEN IN DEVELOPMENT)
NGO	NON-GOVERNMENTAL ORGANIZATION
OECD	ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
PVO	PRIVATE VOLUNTARY ORGANIZATION
RD$	DOMINICAN PESOS
STP	TECHNICAL SECRETARIAT OF THE PRESIDENT OF THE GOVERNMENT OF THE DOMINICAN REPUBLIC
T.A.	TECHNICAL ASSISTANCE
USAID	U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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EVALUATION ABSTRACT

The mid-term evaluation of the Micro and Small Business Development Project (Project # 5170254) was conducted by a 3 person evaluation team from J.E. Austin Associates in early 1994. The project is being well managed and has been successful in meeting its mid-term targets. FondoMicro (FM) has contributed in an important way to supporting ISME in the Dominican Republic through credit, TA, and research. FM credit has helped NGOs to expand their lending activities. Technical assistance has enabled a number of NGOs to greatly improve their credit management and recovery capabilities. Research and publications seem to have had a great impact as well. Not all targets have been met for credit volume because of the bottlenecks at the NGO level where more time and TA are required than was assumed in the project paper. FM has not proven to be a funnel for other donors nor the necessary bridge between NGOs and the capital markets. The project has an excellent benefit/cost ratio, will most likely be sustainable long after project termination, and is having a favorable impact on women. However, an NGO approach alone is inadequate to meet the needs of the ISME sector. This is especially true for the needs of "small" business which still fall between the cracks of "micro" and "medium/large" commercial borrowers. Something must be done to address these needs through formal banks and other financial institutions. This is especially true in the context of the current financial reforms which provide both new obstacles and opportunities. Eight specific recommendations to FM and 11 specific recommendations to USAID are provided to help ensure that the project continues on its successful track. Beyond this, the evaluation provides USAID/Santo Domingo with an opportunity to go beyond the considerable successes of the current project and consider ways to make an even broader impact on the democratization of credit in the Dominican Republic in the context of the current financial sector reforms, a purpose consistent with the goal of achieving sustainable growth with broad participation in the benefits of that growth.

EXECUTIVE SUMMARY

In January, 1994, J.E. Austin Associates was contracted to conduct the mid-term evaluation of the Micro and Small Business Development Project funded by USAID in the Dominican Republic. A total of 9 person-weeks were spent in-country by the 3 person team. AID disbursements were ahead of schedule while the implementing agent, FondoMicro (FM) had not been able to draw down GODR funds nor access third party financing as scheduled due to a bottleneck in the absorptive capacity of FM's NGO clients.

FM channels credit through 6 NGO lenders who in turn assist about 20,000 micro-enterprises in the Dominican Republic. At mid-point, about US$4.6M had been lent, only 61% of the year three target. Credit disbursement by the end of the project is also likely to undershoot EOP targets. The evaluation team concluded that if FM is proceeding more slowly than planned it is also proceeding steadily. It has not overlooked any significant major clients, nor is it too conservative in qualifying NGOs for credit. Rather, the Project Paper overestimated the number of NGOs which could qualify for credit and underestimated the amount of TA and time required to enable these NGOs to meet minimum standards to qualify for credit.

FM credit quality is excellent. There have been no losses and no arrears to date. FM has mechanisms in place for continually monitoring credit quality and has shown an ability to act if it judges that NGOs are not following guidelines on loan recovery. The FM loan rate, seen as high by NGOs, is slightly below the commercial prime rate but above the cost of funds on the local money market. The team found this to be appropriate.

The TA provided by FM to NGOs was reported as excellent. Training programs have also been reviewed favorably. FM has had an especially notable impact with its research on the microenterprise sector. Sound research methodology, combined with effective publications, and excellent access to media have helped to shape public opinion, raise understanding, and influence the agenda of political parties and international donors.

The project has achieved its purpose of institutionally strengthening FM which is well run and has an active Board of Directors. Expenses for administration were well under budget and economies were achieved in the procurement of commodities and technical assistance. FM has proposed reallocating funds earmarked for overhead to further project purposes. There will be a sevenfold increase in the TA provided to NGOs thanks to a mid-course correction which substituted local for foreign TA.

The 6 NGOs funded by FM created or strengthened 37,511 jobs in 1993. Of these, 8,742 were new jobs created that year. ISMEs funded by these NGOs are creating jobs at four times the rate of the average ISME and one new job is being created for each $1,100 of annual credit. The microenterprise sector as a whole contributed over 82,000 new jobs in the Dominican Republic in 1993.

The project is having a positive impact on women. Women owners represent 47% of all credit recipients. Two NGOs target disadvantaged women. ADOPEM, an affiliate of Women's World Banking, is the second largest FM client and seems particularly effective in empowering women from poor and disadvantaged backgrounds. FM has also published specialized research which has increased public knowledge about women's participation in the national microenterprise sector.

FM will easily achieve financial viability on a self-sustainable basis by the end of the project. It has generated $750,000 in profits to date and will probably have a total capital base of US$5M by end of project. This is largely due to good financial management. A key assumption is that such management will continue in place.

In addition to 8 specific recommendations to FM, the evaluation team recommended that USAID drop the issue of FM getting access to commercial bank loans; revise EOP targets for outputs, purposes and goals; change key project assumptions; promptly clarify for FM the acceptable uses of project reflows (especially whether they can be used to capitalize a small business bank); and consider ways to have a broader impact on the democratization of credit in the context of current banking reform.

The slow expansion of NGO lenders and the fact that one NGO received 83% of FM credit in 1993, calls into question the validity of the second tier lending strategy which underpins the USAID approach. Of FM's 6 NGO borrowers only 2 have a client base of 2,000 or more ISMEs. The success of the second tier strategy will depend on the expansion of credit by first level NGOs. The Project Paper underestimated the time and effort required to make ISME NGOs credit worthy. Local TA for NGOs proved more effective than international TA which was originally part of the project design. The lower cost of local TA has also allowed FM to significantly expand the quantity of TA provided. TA providers now spend 3 days a week on-site helping NGOs.

Five NGOs had significantly improved their operations thanks to FM. Their capacity for lending to ISMEs was expanding. The evaluation team also found another advantage in the second tier lending approach: there is value in diversity. ADOPEM and MUDE focus on the special needs of women. Two credit unions specialize in lending to disadvantaged rural areas. FONDESA is especially attuned to the Cibao region. After 3.5 years it is still too early to tell whether these next level or "Avis" NGOs will be able to significantly expand their credit operations to the point where EOP targets can be met.

The evaluators also pointed out that despite project profitability and success, this approach alone cannot provide a full response to the ISME credit needs. A broader approach is needed. USAID should consider a complementary initiative, in the context of the current financial sector reforms, for helping to achieve the democratization of credit. This might include funding initial feasibility studies for a small business bank, exploring the potential for using the AID/W centrally funded loan guarantee program, and support for financial institutions wishing to launch initiatives geared to small and/or micro enterprise.

PREFACE: THE CASES OF DIANA ESCOBAR AND ROSA SANCHEZ

1. Diana Escobar, two years ago, was a nurse working in a Santo Domingo hospital. She had already begun to make and sell simple cosmetic jewelry from the front room of her house when Franklin Domingo, an ADOPEM promoter in the Sabana Perdida barrio heard about her industriousness, creativity and skill through his ongoing activities in the neighborhood where his contacts help him to identify potential credit-worthy micro-entrepreneurs. With a beginning loan of US$200 (RD$2,500), Diana established a florist, crafts, and notions shop on the first floor of her two-story home. Her daughter helped her with the business and together they collected old, cast-off items like jewelry and other small objects, cleaned them and refashioned them into something new. Diana's shop reflects her creativity: teddy bear arrangements, corsages, wedding headpieces and bridal accessories, costume jewelry, dried and fresh flower arrangements.

Diana has now opened a beauty salon next door to her notions shop. Her most recent loan from ADOPEM was for US$3,600 (RD$45,000). She now employs 6 young women and coaches them on how to plan for their futures. Franklin says she now brings in, on the average, more in one day than what she used to make in a month. Her employees are better paid than Diana was as a nurse. Future plans include opening her second floor for rentals of party equipment such as tables, chairs and linens and she is building up the capital base to do so. In the meantime, in planning to penetrate the wedding market, she is expanding her merchandise to include more items for weddings and wedding parties.

2. Rosa Sanchez leads us to a structure under construction about a block away from her current residence. This is the home and workshop she and her husband are building and own after five years of hard work and saving, while enduring crowded living conditions. Rosa points out the large area where her small "factory" will be located. She will be able to accommodate 12 to 15 employees in the new workshop. She indicates an ample storage area off the workshop where the finished jeans will be stored instead of in the bedroom.

Five years ago, Rosa utilized a loan from ADOPEM for US$160 (RD$2,000) to increase her supply of fabric and to purchase a better sewing machine for her small, in-home activity of making men's jeans. She and her husband lived with their three children in the small two-bedroom home which they rented for many years.

Five years after that first loan, they are being crowded out of the house. The largest room in the house, the front room, contains two large cutting boards and seven sewing machines which occupy the time of her seven employees. There is barely enough room for the beds in the bedroom as it is stacked wall-to-wall and floor to ceiling with jeans ready to sell. Rosa has just paid off a RD$50,000 loan (US$4,000), and has recently been approved for $100,000 (US$8,000) loan with ADOPEM. The business has become a real family affair as Rosa's husband is in charge of distributing the jeans through wholesale networks. They are enormously proud of the home and shop they now own and look forward to the further expansion of the business.

INTRODUCTION

Purpose of Evaluation

In July of 1990, USAID/Santo Domingo signed a seven year US$7.25M Cooperative Agreement with FondoMicro (FM) for the purpose of providing credit and technical assistance through NGOs to the small and microenterprise sector in the Dominican Republic and to strengthen and develop credit delivery mechanisms to that sector. This, in turn, would combat the high unemployment and underemployment that characterizes the Dominican Republic's economy. This mid-term evaluation is designed to evaluate the progress to date, identify obstacles, and present recommendations.

The specific tasks are to ascertain progress to date in meeting project objectives, evaluate the management effectiveness of FM, identify problem areas and constraints, and recommend solutions. Key areas of analysis include: planned vs. actual targets achieved to date, project effectiveness and relevance, the benefit/cost of the project, the sustainability of the effort after project termination, project impact on women, the strategic future for FM, and alternative approaches for AID interventions in this sector.

In January of 1994, J.E. Austin Associates (JAA) was contracted by USAID/Santo Domingo to conduct the mid-term evaluation of the FondoMicro Project. The evaluation team was comprised of three people: Mr. Kevin Murphy, President of JAA; Ms. Kimberly Sayers, JAA Associate; and Ms. Karen Wade, Senior Associate at the Institute for Applied Social Policy Research of the Claremont Graduate School. Mr. Murphy organized dialogue sessions between AID and microenterprise NGOs in 1988 as part of USAID's effort leading to the current project. The team spent 9 person-weeks on site evaluating the project.

Methodology Used in This Study

The standard JAA project evaluation methodology, which conforms closely to AID evaluation guidance, was used in this study (Exhibit 1). The three person project team:

1. Gathered and analyzed previous studies available in the USA by AID, World Bank, IDB, OECD and others regarding the lessons learned worldwide on microenterprise projects.

2. Visited IDB/Washington officials who are directly involved in funding microenterprise lending efforts in the D.R. (donor coordination had been identified as an issue).

3. Developed a series of strategic questions to be answered based on the scope of work provided by the Mission.

4. Reviewed project documentation in the USAID and FM offices and received initial briefings from USAID officers.

5. Designed and implemented an NGO survey questionnaire with 6 existing FM clients and 6 non-clients. Detailed interviews were also conducted with FM personnel.

6. Conducted an independent search for NGOs other than those identified by FM by gathering lists of NGOs from the Santo Domingo offices of AID, the IDB and the IAF. These additional NGOs were contacted as well.

7. Contacted organizations that were in a position to independently evaluate FM including IDB-Santo Domingo, IAF-Santo Domingo and the National Business Council (CNHE). The team also interviewed a number of micro-entrepreneur beneficiaries to solicit their points of view.

8. Used project paper benchmark data and LOGFRAME targets to assess accomplishments.

9. Applied JAA strategic analytical frameworks to assess FM and to analyze alternatives.

10. Presented preliminary findings to 6 USAID officials on Friday, February 25th, 1994.

11. Provided a preliminary written report in March and received feedback on it from USAID in May and June.

12. Revised and submitted this final report to the Mission in July.

Historical Background to This Project

USAID identified the importance of the microenterprise sector in the Dominican Republic long before this project and has been among the pioneers in supporting the sector. In 1988, as part of a private sector strategy assessment, J.E. Austin Associates organized a dialogue session where 4 microenterprise NGOs and USAID met to discuss the needs of the sector. NGO leaders present reported that the meeting was the first time that these NGO leaders had all been united in the same room to talk about their challenges and approaches for the future. From this and subsequent sessions, USAID began formulating a strategy for assistance. In 1989, USAID commissioned a study by MSI which confirmed that lack of access to credit was a constraint to growth in the ISME sector. Virtually no ISMEs had successfully obtained credit from a bank. A related study confirmed that Dominican banks consider the transaction costs of such activity unacceptably high. If ISME growth was to be catalyzed, credit accessibility had to be improved. Most ISMEs used their own or family contributions, "prestamistas," or NGOs operating lending programs. USAID sought to support and expand the operations of the latter.

Initial discussions with the NGOs centered around the possibility of creating an industry association "ASOMICRO" which would be led by the NGOs themselves and would seek to mobilize credit and technical assistance to the sector. In part because of philosophical disagreements among NGOs and in part because USAID felt that it would be more effective, USAID decided to support the creation of FondoMicro, a non-profit organization with a Board of Directors mainly from the banking community, created to channel resources to NGOs with credit programs to ISME. The validity of a second-tier strategy must be evaluated along with the effectiveness of the institution itself.

Acknowledgments

The evaluation team, wishes to express its thanks to Mr. Larry Laird, Mr. Douglas Ball, Mr. Odalis Perez and Mr. Luis Gonzalez of USAID/Santo Domingo. It also wishes to acknowledge the full and candid cooperation of Mr. Mario Davalos and the executives and staff of FondoMicro. The team expresses its appreciation to Sotero Peralta of Horwath Consulting who assisted the team in its analysis. The team thanks the NGOs who took time to share their thoughtful evaluations. The team also acknowledges the micro-entrepreneurs like Rosa Sanchez and Diana Escobar, mentioned in the Preface, who provided an introduction to their businesses, their homes, their struggles and their aspirations. It is to such people that the team wishes to dedicate this evaluation.

1. EVALUATION OF INPUTS

Accelerated AID Inputs Have Allowed FondoMicro to Capitalize Rapidly. As shown in the Table 1 below, FondoMicro has received $3.8M from USAID, nearly twice the amount that was originally scheduled to be disbursed by this point. This acceleration, made possible by the expeditious fulfillment of conditions precedent and by AID approvals, has enabled FondoMicro to utilize lowest cost funds first and capitalize itself more quickly than would otherwise have been the case. The latest Project Financial Status Report made available to the team by USAID/Santo Domingo showed total (FM and non-FM) disbursements of US$4,852,581 leaving an unliquidated pipeline of US$2,397,419. An additional $580,487 had been advanced by USAID. By the beginning of March 1994, USAID had disbursed or advanced 74.9% of total project funds.

Table 1

AID DISBURSEMENTS (TO FM ONLY) UNDER PROJECT

YEAR	SCHEDULED	ACTUAL	VARIATION
1 1990-91	$0.5 M	$0.9 M	$0.4 M
2 1992	$0.8 M	$1.4 M	$0.6 M
3 1993	$0.7 M	$1.5 M	$0.8 M
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TOTAL	$2.0 M	$3.8 M	$1.8 M

Source: Project Paper (p.11-12) and FM documentation.

FM Has Not Been Able to Draw Down Its GODR/ Funds As Scheduled. The project paper envisioned that by year three of the project, FondoMicro would have obtained $2.0M in local currency STP funds from the GODR. At the time of writing, FondoMicro has solicited and obtained only half of this amount. The remaining half has not yet been solicited because FondoMicro lacks an outlet for these funds. Because of STP regulations, FondoMicro cannot on-lend any more STP funds to ADEMI, currently the only client with the capacity to absorb this volume. Rather than incur interest charges of 12 percent for funds it cannot place, FondoMicro has postponed soliciting an additional $1.0M. However, FondoMicro's director expects that increases in lines of credit to other NGOs will justify soliciting the remainder by the end of 1994 (see Exhibit 2).

FM Has Not Drawn Down Its RD$2.0M Line of Credit with Banco Popular Nor Tapped Local Capital Markets. For the same reason described above, FM has not utilized its commercial bank line of credit nor sought to negotiate others. FM faces a bottleneck in its distribution channels as NGO absorptive capacities are not as great as was assumed in the Project Paper. FM management prefers using its lower cost funds first.

Access To Commercial Bank Loans Is Not a Major Constraint. USAID has repeatedly questioned FM non-utilization of commercial bank lines of credit for on-lending to NGOs. The evaluation team does not believe that this is a key issue nor does it represent a constraint for the project. First, Dominican banks are well represented on FondoMicro's Board and seem to be willing to provide lines of credit if needed. Second, FM has an existing line of credit with Banco Popular which is unused. Third, many NGOs can get at least some commercial loans directly from banks. Finally, if FM should wish to get access to additional capital it would probably first seek to tap the local money market through the Bolsa de Valores de Santo Domingo as the cost of funds there would be about 15% versus the current best prime rate of 19% available from banks.

FM Has Not Received Financing for Credit Operations from the IDB or Other Donors. The IDB has preferred to provide soft loans directly to NGOs rather than using FM as a second tier credit agency. However, in the near future IDB funds will probably finance FM training and TA to NGOs. In addition, the evaluation team learned from its discussions with IDB that there is also an outside chance that FM could be selected as the implementing agent in the D.R. for the IDB/Washington global microenterprise finance project.

The Budget Amendment Approved in 1993 Will Strengthen FM's Capability to Achieve Project Objectives. In addition to providing credit to NGOs, FondoMicro was supposed to provide technical assistance and conduct research. The latter two activities were to be financed through a GEMINI buy-in. In March 1993, a request for an extension of the buy-in agreement resulted in the discovery that, as a Handbook 13 grant recipient, FM could not legally access an AID buy-in. With GEMINI assistance no longer an option FM proposed to bring the research and technical assistance functions completely in house. USAID approved the proposal, which took $1.3M out of the GEMINI budget category and split it between the credit program and newly-created in-house technical assistance and research divisions. While it will use only half the funds originally intended, FondoMicro will provide significantly more research and seven times the technical assistance originally anticipated. Much of this savings can be attributed to the usage of local rather than expatriate expertise. It is the evaluation team's judgement that this represents a cost-effective approach as qualified T.A. providers are available locally.

To summarize, the availability, level or timeliness of input provision has not been an obstacle to project performance. AID inputs are ahead of schedule while non-AID inputs are behind schedule. Delays are due to demand, rather than supply: FM could access the funds but the absorptive capacities of NGOs does not justify doing so at this point.

2. EVALUATION OF OUTPUTS

2A. CREDIT (FINANCIAL SUPPORT) PROGRAM

Quantity of Credit Lent

At the End of Year 3, FondoMicro had Lent $4.6M, or 61 Percent of the Y Target.- By December 31, 1993, FM had approved RD$62.2M, of which RD$57.2M had been used by the microenterprise NGOs in its portfolio (Exhibit 4). This undershooting of the lending target is one of the central project issues. The problem centers around the number of eligible NGOs with microenterprise lending programs and their absorptive capacity.

Annual Credit Disbursement Is Likely To Significantly Undershoot End-of-Project Targets. The project team asked FM to prepare its best estimates for future credit disbursement. FM currently projects a portfolio of RD$144M, although this assumes nearly five-fold growth by ADOPEM, tenfold growth by FONDESA and the addition of new NGOs to the portfolio that have not yet been identified. This would lead to a portfolio of about US$12M given current exchange rates (Exhibit 5).

The Project Team Concluded That FM Is Not Overlooking Major Clients. The team also tried to assess whether FondoMicro had contacted or exhausted the universe of potential clients. The team requested lists from major donors to NGOs operating in the micro and small enterprise sector. The team contacted all of these which could be located to verify the existence, size, and scope of their lending operations. The team discovered six that claimed to operate lending programs. These had modest portfolios, the largest of which was under US$500,000. Some of these were known to FM, and others have recently emerged.

The Project Paper Overestimated Numbers of Microenterprise NGOs. The project paper believed that "scores" of microenterprise NGOs were potential clients. In reality, the actual number of microenterprise NGOs which could be potential clients is more like 25. Of these FM is currently involved with 10 and has engaged in initial conversations with an additional 3.

The Number of Credit Worthy NGOs Was Also Overestimated in the Project Design. The project paper envisioned 12 credit worthy NGOs by year 3 while only planning for 8 TA programs. This implies that four NGOs would be found in the first three years of the project that would not require TA (Exhibit 6). In fact, only one NGO, ADEMI, met the project criteria for credit eligibility without TA. ADEMI's size allowed it to absorb a relatively large volume of funds, and FM met 75 percent of its Y1 portfolio goal. Credit disbursement, as a percentage of project targets, slipped in subsequent years.

The Evaluators Sought to Verify that the Alleged Bottleneck Actually Exists. The team's strategy in doing this was two-fold: For current NGO borrowers and TA recipients expected to qualify shortly, the team reviewed a "diagnostico" of each NGO which was conducted by the accounting firm of Sotero Peralta, in order to verify that these firms did not initially meet the lending criteria set out in the project paper and in FondoMicro's Credit Manual. In addition, NGOs were asked in interviews to assess the accuracy of these findings. In this way, the evaluation team was able to conclude that credit was neither denied nor delayed to any known entity that fulfilled the objective criteria.

The Project Paper Overestimated the Absorptive Capacities of the NGOs and the Level of Technical Assistance Required to Qualify New NGOs. FondoMicro has been working with NGOs in an effort to render them eligible for credit and/or expand their lending capabilities. This would enable FM to widen its market and lessen its dependency on only one client. Three groups were approved for credit in the project's second year, but their lines of credit combined were only US$480,000.

Two cooperatives were approved for credit in 1993. Like their predecessors the year before, these groups had been the recipients of large amounts of technical assistance prior to gaining credit approval. In fact, these two were the best of a group which had obtained assistance through AIRAC. They do not promise to ameliorate the delivery bottleneck. They have only 370 clients and a microenterprise portfolio of under US$320,000.

Credit Concentration (Exhibit 7)

About 83% of FM Loans Go to 1 NGO Client. ADEMI accounts for a large volume of the FM portfolio. However, ADOPEM and other second tier NGOs are growing and this percentage is expected to fall to about 75% in 1994. This credit concentration raises a major project issue: if 80% or more of the impact on improving credit among ISMEs comes from ADEMI, should AID simply provide resources directly to that NGO? Do these second tier "Avis" NGOs promise to become significant delivery mechanisms? Credit concentration at project termination will be a significant measure of progress and should be monitored on an ongoing basis. It should be included in FM reports to AID along with growth rates of credit to ISMEs by NGOs and growth rates of credit received from FM.

Credit Quality (Exhibit 8)

FM Has Recorded No Losses To Date on Credit. FM has not had to write off any loans to date. It has cancelled one line of credit but will be fully repaid.

FM Has No Arrears. The Evaluation Team examined the current portfolio and found a zero level of arrears. FM has good monitoring capabilities, and the 6 NGOs that currently receive credit see it in their interest to pay on a timely basis to maintain their access to FM credit.

FM Has Established Loan Loss Reserves of 4%. FM maintains a loan loss reserve currently equivalent to 4% of its portfolio, which will ensure its viability against default by all of its clients save one. Since ADEMI represents 83% of FM's current portfolio, no reasonable reserve could protect FM against their default.

FM Has Mechanisms In Place for Continual Monitoring of Credit Quality. The continuing quality of the portfolio is ensured by the oversight of the Credit Review Committee, whose actions so far have lead to the termination of one NGO's line of credit. This NGO had not been late nor had defaulted on an FM line of credit. But FM monitoring of the deterioration of the portfolio of this NGO combined with the judgement that the NGO was unwilling to take corrective action, resulted in the termination of the line of credit. This action demonstrates that FM has a mechanism for determining if there are likely to be problems, and that it is also willing and able to take action when necessary.

FM Credit Policy Is Not Too Lax, But Is It Too Strict? The evaluation team sought to address the question of whether FM is too strict in its eligibility criteria for qualifying new NGOs or too quick to cut off credit. FM follows eligibility criteria in the Project Paper and has even allowed some NGOs to participate when they lack the minimum 200 clients. FM could, by lowering its standards, channel larger amounts of credit to the sector. It is the opinion of the evaluation team that this would compromise credit quality, be harmful to the discipline of the NGO lending sector, and endanger the long term sustainability of FM. It is better for NGOs to meet the standards set by FM, even if this takes longer than expected, than for standards to be relaxed to the point where the long term viability of FM and the NGOs is reduced.

FM Provided a High Level of Technical Assistance Prior to Terminating One NGO. The evaluation team found that the NGO which was terminated by FM had received about half of the technical assistance provided by FM over a two year period of time. This indicates that FM made a significant effort to assist the NGO in implementing the measures deemed necessary to ensure adequate loan recovery. FM terminated credit when it concluded that the NGO was experiencing a deteriorating portfolio, and that NGO management was not in philosophical agreement regarding measures to be taken to ensure adequate loan recovery. The decision by FM was based on procedures outline in the FM Manual approved by AID. However, FM should in the future introduce an additional penultimate step prior to loan cutoff in the form of an official letter advising the client of imminent cutoff along with the steps that would have to be taken to avoid such a cutoff. The actual cutoff seems to have taken the NGO by surprise, even if the issues behind the cutoff had been amply discussed.

Credit Cost (Exhibit 9)

The Evaluation Team Analyzed the Cost of Funds to FM, FM Spreads, the Cost of Funds to NGOs, the Spreads Enjoyed by NGOS, and the Cost of Funds to Intermediate, Small and Microenterprise (ISMEs). Most NGO lenders to ISMEs currently charge nominal rates of 28 to 49%, although effective rates vary widely, depending on the length of time of the loan and the commissions. (Exhibit 9). While this is a high cost relative to the prime rate of 20%, it reflects prevailing market conditions, the additional costs involved in processing very small loans and the risk taken by the lending NGO.

NGOs feel that FM loan rate should be lower. They employ two major arguments. The first is an argument of fairness based on the FM cost of funds, the spread enjoyed relative to the work required. With its current mix of AID funds (0%) and GODR/STP funds (12%), FM's average cost of funds is currently 2.6%. Yet, it currently lends at 17.5% enjoying a spread of about 15%. Many NGOs would like to receive cheaper credit from FM, and feel that if AID has provided 0 cost funds, FM should have an obligation to lower its cost of funds. The largest NGO, ADEMI, points out that FM enjoys a 15 point spread in return for the relatively easy task of passing on money to ADEMI and 5 other credit worthy clients, while the NGOs receive spreads not much larger in return for the hard work of finding and administering thousands of small lines of credit.

FM Cannot Lower Its Loan Rate By Much If It Expects to Tap the Capital Markets. -While spreads may be generous at the moment, FM will eventually have to tap the capital markets as NGO volume increases. FM would probably seek to use the local money market to raise money. Current rates for short term paper are about 15%. This would narrow FM's spread to 2.5 points. This represents a floor beyond which it cannot lower its rate if it wishes to grow by tapping capital markets. The policy of lending at 80% of prime was established in the Project Paper. This policy reflected AID's purpose in establishing a profitable and self-sustaining second tier credit facility. It is natural that FM will want to charge the highest permitted rate the market will bear, so that it can capitalize itself for future growth. It is also natural that the NGOs will want to negotiate the lowest possible rate so as to capitalize themselves or pass on the savings to their clients. The objection regarding cost has not kept NGOs from taking advantage of FM credit, which demonstrates that it is still cheaper than alternative sources. FM pegs its rate to prime, which in real terms is relatively high reflecting market conditions in the Dominican Republic. Should monetary policy and/or banking efficiency result in lower rates, FM would be providing its credit at lower rates as well.

The Largest NGO Disagrees With the Project Approach. ADEMI believes that the project has not been properly designed. Its view is that AID should be capitalizing the NGOs rather than FM and that a second tier organization should be more of an administrative mechanism for funds rather than a credit agency. The justification for a second tier lending agency is a major project issue and will be dealt with below.

2B. TRAINING AND TECHNICAL ASSISTANCE

Evaluation of Training

FM Has Provided Significant Quantity of Training to NGOs. No specific Project Paper targets appear in the LOGFRAME but FM has offered substantial and varied training courses to NGO technical personnel. Between 1991 and 1993 FM provided 397 hours of training courses, representing the delivery of 20 courses on 9 different topics to 557 participants from 7 NGOs. Personnel from ADEMI represented well over half of the 557 participants trained to date.

The 1994 training schedule represents yet a further expansion of the number and variety of courses offered. Classes will be offered in both Santo Domingo and Santiago. FM's Executive Director surveyed the NGOs to determine their training needs. This survey information was added to FM's own assessment of NGO training needs to determine course offering priorities for 1994. Over 400 participants are expected to attend the 22 planned courses on the following topics: Credit Analysis, Appraisals, Guarantees, Supervision Techniques, Client Services, Lotus, and WordPerfect. Several NGOs (MUDE, CDD, IDDI, Neyba, and Candelaria) will be sending participants to training courses for the first time this year. Twelve of the 22 courses will be solely for ADEMI's personnel.

Quality of Training Was Rated Very Good to Excellent by Most NGOs but Formal Evaluations Could Not Be Located. Post-course evaluations reportedly followed each training programs. Participants had the opportunity to rate the quality of the course. A full assessment of participant ratings of the courses was not obtained because only three of the twenty course files were located. During the interviews with the NGO representatives the quality of the training courses was evaluated as very good to excellent in the opinion of those interviewed.

Technical Assistance

Project paper estimations of the need for direct technical assistance to the NGOs were greatly underestimated. The project paper planned for 70 person-months of technical assistance to 3 to 4 NGOs per year which would yield 12 credit management assistance programs and loans to 10 NGOs over the 7 year project (see logframe and project paper pages 21, 23). It was originally conceived that technical assistance would be provided through the Gemini buy-in. Gemini subcontracted with Sotero Peralta and Associates, a Santo Domingo affiliate of Horwath Consulting, to provide the direct technical assistance. Peralta and Associates provided 23.8 person-months of TA to 6 NGOs between 12/91 and the contract's end, 10/92. It became apparent that, with the exception of ADEMI, ongoing, continuous technical assistance to build the absorptive capacity of the NGOs would be required. Between 11/92 and 9/93, FM staff continued to provide TA, an additional 11.2 person-months, primarily to FDD. A third model of technical assistance delivery was inaugurated in August of 1993 with the development of the Institutional Development

Department, headed by Luis Martinez, an experienced financial manager. This model is currently being implemented and involves on-site TA three days per week by FM Institutional Development Staff specifically assigned to provide TA to a particular NGO. The new program was not operational until December of 1993, but 6.8 person-months of TA have been offered since that time.

To date, 9 NGOs have received 41.8 person-months of direct TA vs a total of 70 person-months planned over the life of the project. It should be noted that FDD alone received 20.6 person-months of TA, fully half of all TA, though it has now been cut off from FM credit. This investment on the part of Fondomicro represents FM's desire to include FDD within its portfolio but also indicates a weakness in its own system, the failure to establish appropriate progress indicators as signals that further investment of institutional resources may not be warranted. The hiring of a senior finance person to lead the department addresses this gap (see Exhibit 10).

FM plans a seven-fold increase in the provision of TA to NGOs over what had been planned. In reviewing their budget and strategic options FM's Executive Director and Institutional Development Director have determined that four NGO's possess the organizational potential to grow in a sustainable manner and significantly increase their absorptive capacity to on-lend credit over time. Three NGOs which already receive credit will be the recipients of on-site, hands-on technical assistance three days per week through the end of the project. One recently assessed NGO, MUDE, has been identified as having good potential to absorb credit resources. The credit unions in Candelaria and Neyba will receive limited FM TA through an agreement with AIRAC. Through project end, over 513 person-months of technical assistance are planned at no increase in cost. Under this plan, by project end, FM will have provided TA to 9 NGOs, and will have established growing credit programs with 7. For projected T.A. for the rest of the project see Exhibit 11.

FM's TA to NGOs has been invaluable in strengthening their financial, accounting, and administrative systems. During the interviews with NGOs, FM's technical assistance was generally favorably reviewed with the rating "excellent". There were two interviews however, with the directors of FDD and EDUDELC, when it was apparent that there was a conflict between the philosophical positions of these organizations and FM. FDD and EDUDELC primarily see themselves as servers of the poor, a portion of whom may not be able to repay their loans. There is a clash in the values held by the organizations who rely on donor grants to sustain their losses, and the FM standards which demand rigorous risk assessment, and standards of accountability to assure long-term financial viability. It is the opinion of the evaluation team that the TA provided to the recipient NGOs has significantly modernized their administrative and financial systems to a level they would not likely have achieved without project TA. Feedback on the quality of training and TA by NGOs appears in Exhibit 12.

2C. RESEARCH (Exhibit 13)

FM Has Published Three Major Research Publications. Several important publications have had an important impact in the Dominican Republic. They have enjoyed the intellectual and methodological support of one of the leading Dominican historians, Frank Moya Pons and have also enjoyed the technical assistance of Michigan State University at first directly and later through an ongoing relationship between author Miguel Cabal and professors Carl Liedholm and Don Mead at Michigan State. The major publications produced under the project are:

1. **MICROEMPRESAS Y PEQUENAS EMPRESAS EN LA REPUBLICA DOMINICANA, RESULTADOS DE UNA ENCUESTA NACIONAL,** (Micro and Small Enterprises in the Dominican Republic), by Miguel Cabal, Michigan State University, financed by FM with resources of AID via Gemini, administered by Development Alternatives Inc., 1992.

2. **EVOLUCION DE LAS MICROEMPRESAS Y PEQUENAS EMPRESAS EN LA REPUBLICA DOMINICANA, 1992-1993,** (Evolution of Microenterprise and Small Enterprises in the Dominican Republic), by Miguel Cabal, financed by FondoMicro with resources of AID, 1993.

3. **MICROEMPRESAS Y PEQUENAS EMPRESAS DE MUJERES EN LA REPUBLICA DOMINICANA, RESULTADOS DE UNA ENCUESTA NACIONAL,** (Women Owned Micro and Small Enterprise in the Dominican Republic), by Patricia Cely, financed by FM with resources of AID, 1993.

NGOs and Major Donors Reported Great Usefulness of the Studies for Their Programs. The NGOs interviewed reported that the studies were of great relevance. The IDB is also using the data and insights in their programs of assistance to the microenterprise sector.

Political Parties Now Include Microenterprise Concerns in Platforms. When the FondoMicro/Michigan State University study first revealed and documented the importance of the microenterprise sector, much publicity and interest was generated, helped in part by influential FM Board members with access to the press. Partly as a result of these efforts, political parties have included ISME concerns in their political platforms and campaigns.

A Conference on Women in Microenterprise is Scheduled for the Fall of 1994. This conference is part of ongoing efforts to analyze gender concerns and includes talks with universities in the USA and the UK on joint studies and research.

FM Research Has Set the Foundation for Future Policy Reform. The benchmark and ongoing studies of the sector have generated useful date which can provide useful input for the policy reform and for creating a better enabling environment for micro and small business.

Research Is Scheduled To End Next Year But Important Needs Remain. Most NGOs indicated a need for continued research. The FM research is generally regarded to be among the most useful outputs of this project by those interviewed and an effort should be made to continue financing some level of research. This would not be terribly expensive. Approximately US$40,000 per year could fund a modest research program with an annual survey, two research publications a year, and two conferences. Such research, if continued, should now be focused on the more practical needs of the NGOs served by FM. NGOs in Santiago expressed a desire to have data broken down by region as it is important for them to know ISME mortality rates, obstacles to growth, etc. in their particular zone of influence. This research would also help to guide lending efforts by identifying problem lending profiles, growth sectors, and other variables which could help NGOs increase their success. The next research effort should be planned in close consultation with NGO managers so as to produce results which build on the baseline studies of the past but which include additional questions responding to the current and changing managerial priorities of the NGOs.

2D. COMMODITY OUTPUTS

Commodities Provided To Date Have Exceeded Plan While Staying Under Budget. Substantial savings were made in procuring FM vehicles and office furniture. This, along with much lower computer prices than those in the project budget, resulted in FM being able to acquire 31 computers vs. the 8 that were planned. This not only allowed FM to equip its technical assistance department but also allowed it to provide 23 computers to NGOs (vs. 6 in the plan), an outcome that was appreciated by NGOs. Most of the $276,600 budget for commodities has been spent and the remaining $45,000 will be spent this year. (Exhibit 14).

3. PURPOSES

3A. INSTITUTIONAL STRENGTHENING OF FM (Exhibit 15).

Institutional Strengthening of FondoMicro, a Major Project Purpose, Has Been Achieved. FM has adequate office space (2,600 sq. feet on two floors of the Nissan Building), and its facilities are well-equipped, and adequate to the tasks required. The staff of 16 includes the Executive Director, the Director of Institutional Development, and Director Research, five technical assistance staff, one researcher and two accounting staff. Support staff include secretary, driver, messenger, and cleaning person.

FM Institutional Strengthening Has Exceeded Expectations with the Addition of a Strong TA Department to Help NGOs. The Institutional Development Department, includes five technical assistants and a director, and is tasked with strengthening NGOs' institutional and credit management capabilities. The reasons for this were explained above. This was done within the current project budget and reduces the cost and expands the quantity of TA available. This enables FM to provide more intensive and longer-term assistance to NGOs. Technicians typically spend 3 days a week on-site at the NGO over a period of many months.

FM Is Supported In Its Mission By An Active Board of Directors. Presently, the board meets on a bi-monthly basis and includes a Credit Review Committee, which must approve all lines of credit to NGOs. Currently, the Board includes representatives of four major banks. Their input was especially valuable when FondoMicro was developing credit and other manuals to guide its operations and procedures. These manuals have been completed. FondoMicro currently has as a result sound administration and control procedures.

3B. NGO BORROWERS IN FM PORTFOLIO (Exhibit 16).

FM Has Met Minimum End of Project Targets for Number of NGOs in Its Portfolio. FM currently offers credit to 6 NGOs compared to the end of project targets of 6-12 NGOs. As a result, FM has already met its targets for the minimum number of NGOs which should be receiving credit by the end of project. By the end of 1994, one NGO will be dropped but two more will be added, bringing the total to 7. FM had actually provided credit or technical assistance to 9 NGOs by the time of the evaluation team visit. By the team of the final report, it had provided TA or credit to 10 NGOs and had begun conversations with another 3.

However, These NGOs Have Smaller Than Expected Portfolios. EOP targets indicate that the 6-12 NGOs should have expanded portfolios of between 2,000 to 10,000 borrowers each. Only two NGOs currently meet this requisite. ADEMI actually exceeds it with 13,621 borrowers and ADOPEM has 4,000 borrowers. Most of the others have fewer than 400. To meet these targets requires FM to help at least 4 additional NGOs achieve a tenfold growth in their client base.

3C. ISMEs WITH ACCESS TO CREDIT

FM Has Already Met EOP Targets for ISMEs With Access to Credit, But Targets Ranges Were Set Too Broadly. The LOGFRAME calls for "6 to 12 NGOs with a minimum of 2,000 to 10,000 clients each." This would mean anywhere from 12,000 to 120,000 ISMEs with credit. This target is too wide to be truly meaningful. The total number of small and microenterprises reached by FondoMicro's client NGOs is 19,963, so one can say that the minimum targets have already been reached, at least in terms of numbers of ISMEs if not volume of credit. (ADEMI alone has over 12,000 clients now.) The project team believes that FM should set a minimum target of 40,000 ISMEs having access to credit and develop strategies for ensuring that these targets are achieved.

4. PROJECT GOALS

NGOs Funded by FM Created or Strengthened 37,511 Jobs in 1993. This figure represents total employment in microenterprises funded by the 6 NGOs receiving credit from FM. Of these jobs, 25,417 were created or strengthened by the leading NGO, ADEMI. NGOs do not receive all their funding from FM, so the project team also prorated these employment figures based on the percentage of FM financing in the NGO portfolio. Under this more conservative methodology, project credit funding directly created or strengthened 10,105 jobs (Exhibit 17).

NGOs Funded By the Project Generated 8,742 New Jobs in 1993. The project team assembled numbers from the 6 NGOs which currently receive credit from FONDOMICRO. For NGOs which did not have data on new employment generation for 1993, the team used the ratios generally prevailing among NGOs which did have data. Additional jobs created for the year came to approximately 8,742. If one takes a more conservative approach and reduces this number to reflect the percentage of NGO portfolios coming from FM credit, one can say that 3,060 new jobs were created with direct project funding.

FM-Funded ISMEs Generated Four Times the Jobs as the Average ISME. Project-funded ISMEs, as reported by the NGOs, accounted for only 1% of ISME employment but accounted for 4% of the new ISME job creation in 1993. This is not surprising as credit demand tends to come from those ISMEs which are in a growth mode. However, it does reflect the fact that project funds are targeted to the more dynamic, employment-producing segments of the market.

FM Research Has Revealed That Microenterprise Contributes More to Employment than Previously Thought. The Michigan State University/Gemini baseline study revealed that microenterprise was a more significant contributor to employment than was previously thought. According to the second major survey which updates the MSU/Gemini baseline data, microenterprise provides employment for 843,391 people, or 26.6% of the economically active population of the Dominican Republic (Exhibit 18).

Microenterprises Created 82,040 New Jobs in 1993. The two FM-financed studies revealed a net growth in employment of 82,040 in 1993, a figure which is very significant. It represents a growth rate of nearly 10%. How good are these numbers? The benchmark study was done under the supervision of Michigan State University, generally acknowledged to be a center of expertise in the area of microenterprise survey design and implementation. The follow up study, conducted one year later, also benefitted from the use of MSU methodology and technology, although the individual who directed this study was no longer formally associated with the university. These numbers are as good as one is going to find in microenterprise studies in less developed countries.

FM Impact On Goal Achievement Is Likely To Continue Long After Project Termination. Employment generation is likely to continue long after project termination. FM will, if present trends continue, be a going concern that continues to lend to NGOs long after project termination.

One New Job is Being Generated for Each US$1,100 of Credit Per Year. Assuming that this ratio continues to hold, one can project annual job creation of about 8,000 jobs at project termination under a conservative scenario and would continue thereafter.

Project Indirect Impact on Goal Achievement is Hard to Quantify But Should Not Be Ignored Entirely. FM has drawn political attention to the ISME sector and this visibility may result in political initiatives which improve the enabling environment for ISMEs. FM, along with its major client, ADEMI, have drawn the attention of the private sector to the potential profitability of lending to small (if not micro) business. This has happened in a very short space of time. This could have very substantial long term structural impact on the democratization of credit in the Dominican Republic and should not be ignored.

Project Goals Should Be Amended. Based on more realistic indicators and better data on job creation resulting from ISME credit, the evaluation team suggests end of project goal indicators: 26,000 new jobs created per year and 120,000 jobs created or strengthened by the NGOs in the FM portfolio.

5. GENDER CONSIDERATIONS IN FM EVALUATION

<u>A multilevel methodology was utilized to assess the impact of the project on women, and women's participation in project design, appraisal, and implementation</u>. --Interviews were conducted with women at several levels of the Fondomicro system: the woman member of FM's Board of Directors, women staff at Fondomicro, women executive directors of NGOs, women staff at NGOs, and, ultimately, women micro-entrepreneurs. Perspectives from male executives and staff within the system were also solicited as to women's participation in the project, and the credit needs and behavior of women micro-entrepreneurs.

Per the project paper, the only required gender-related indicator for FM's reporting to USAID/Santo Domingo has been the number of end-user credit beneficiaries by gender. These numbers, as described below, while useful indicators, provide limited insight into the behavior of women micro-entrepreneurs, their credit needs, credit-seeking behavior, and their overall participation in the project. The JAA evaluation team requested that FM manipulate its database to provide additional quantitative data and additional information regarding portfolio value and average loan amounts.

5A. WOMEN AS PROJECT BENEFICIARIES

<u>Women end-users comprise 47% of the volume and 30% of the value of Fondomicro's portfolio</u>. --Among the NGOs which lend to both women and men, women clients represent 24% to 37% of their portfolio clientele, and these loans represent 10% to 32% of the value of the portfolios. The lending patterns of FM's two largest NGO clients, ADEMI (83%) and ADOPEM (10%) contribute the most to FM's performance in credit service to women. The average ADEMI loan to women is 55% of the value of the average loan to men. ADEMI's proportion of female clients (37%) is counterbalanced by ADOPEM's 100% female clientele. However, the average ADOPEM loan amount is only about 19% of the average loan to a female client of ADEMI. The other NGO's, while minor players at this time, have growing proportions of women among their borrowers.

<u>The proportion of female participation in FM's portfolio (47%) is consistent with and slightly exceeds the national representation of women in the microenterprise sector</u>. --The MSU survey found that 45.8% of microenterprises are woman-owned, thus FM's proportion of female end-users slightly exceeds the national sample. The lower value of women's share of the portfolio, 30%, is consistent with national data which found that women-owned businesses tend to be smaller than men's and experience more constraints on their growth. With the number of paid employees as an indicator of the size of the enterprise, women's enterprises employ fewer paid workers than men's. The entrepreneur's own labor in female enterprises constitutes 58.7% of the total effort, while in male-owned enterprises, the owner contributes only 35.5% of the effort. Paid employees make up only

19.3% of the employment composition of female-owned enterprises, while making up 46.4% in male owned enterprises. Female owners rely on unpaid family labor to a larger degree than male business owners, 20.8% vs. 12.1%.

Female ISMEs Tend to Grow More Slowly. --In the urban microenterprise sector, the MSU analysis indicates a total annual growth rate in employment generation of 8.3%. However, female-owned enterprises experience a 6.4% growth rate and men's businesses 10.1%. The national survey highlights that constraints to the growth of women's enterprises are tied to the high proportion of women, 80%, whose business activities operate simultaneously with their domestic responsibilities. Because of the need to stay close to home, women entrepreneurs' mobility is limited in all aspects of business operations: in reaching clients beyond their neighborhoods as well as in obtaining materials from suppliers and credit from financial organizations. Growth is also constrained by the higher proportion of female entrepreneur's earnings which are diverted to the domestic realm rather than reinvested in the business.

The national data base indicates that female-owned microenterprises are important generators of female employment. --Nationwide, 64.5% of female employment in the microenterprise sector is found within women-owned enterprises, compared to 21.9% of female employees found in male-owned enterprises, and 13.3% in joint male-female owned businesses. Currently, the FM/NGO information system does not allow an analysis to disaggregate employment generation data by gender, but this information would be valuable given USAID's priority that microenterprise lending generate employment.

Women clients are widely perceived as good credit risks. --A consistent feature of interviews at all levels of the FM and NGO systems is the perception that women are "better borrowers". Although there is no disaggregated data to support this contention, there is a popular notion that Dominican women are more conservative, and sometimes "timid" about originally seeking credit. Once a loan is taken out however, the widely held opinion by both sexes at all organizational levels is that women are more conscientious than men about repaying their loans. Loan delinquency rates disaggregated by gender could serve as an indicator that women repay loans more consistently. This information does not currently exist within the system, but it is noteworthy that ADOPEM's exclusively female portfolio has the lowest delinquency rates of all FM's NGO clients.

Regardless of women's perceived credit worthiness, NGOs generally do not target special strategies toward gaining more of the female market. --Most NGO's perceive that they offer credit to women and men in the same manner, regardless of gender. ADEMI's Executive Director, while expressing a strong philosophical opposition to gender-based lending strategies, acknowledges that their loan consultants in the field are allowed to make loans to women utilizing "softer" criteria, i.e. men are required to have one year of microenterprise experience, women only 6 months.

Loans to Women May Be Costlier to Market and Administer. --Loans to women are on average smaller, and may require more effort to market at the outset. This may counterbalance the advantage of having better reputations for repayment.

A JAA evaluator made field visits to the microenterprises of 6 ADOPEM clients in the Sabana Perdida neighborhood accompanied by a female promoter for solidarity group clients and a male promoter of microenterprise loans. Both promoters talked about the difficulty of convincing women to take the first loan. The woman is generally not convinced until she has the support of her social network including her husband, parents, other relatives and friends. For the promoter, this may involve several meetings to explain the concepts to the various support persons. For solidarity group members who together guarantee each other's loans, first loans to each individual begin at about US$32. Subject to successful repayment, subsequent loans can be made up to every three months in the first year graduating in value to US$48, US$64, and US$88. Individual microenterprise loans begin at US$500. ADOPEM's program contains a strong training component to equip borrowers with basic business skills. While ADOPEM's financial structure has been built around a philosophy of reaching out to women beginning with the smallest of loans, this type of labor intensive outreach and training could be seen by other NGOs as containing undesirable transaction costs in proportion to profitability. Indeed, ADEMI's portfolio represents about 37% women clients and ADEMI conceives itself as a "minimalist" organization, providing very limited training and TA to micro-entrepreneurs.

Visits to Female Micro-entrepreneurs Confirmed the Dramatic Impact That An Appropriate Lending Program Can Offer. --The impressive stories of two female entrepreneurs appear in the preface. In all the JAA team visited six women-owned microenterprises. Four women have individual loans, and two of the women are members of solidarity groups. Their experience with ADOPEM ranges from 18 months to 10 years and their loans from US$64 to US$8,000. One sells bean soup to neighbors; another sells clothing, sheets and other basic goods from a room of her house; one is a wholesale producer of men's jeans; three run beauty salons and one of these has diversified into selling floral bouquets, crafts and jewelry. All mix domestic work with economic activities, all have husbands who support their efforts, all appreciate the income they derive from their businesses and the business management skills they've attained through ADOPEM's training program. All have plans to expand and/or diversify their businesses. Though their current living conditions ranged from impoverished to lower-middle class, all expressed a sense of self-confidence and an optimism about her economic future. The selection of the clients visited was made by ADOPEM's Executive Director and it is not known how well this group represents the experience of other ADOPEM clients or other micro-entrepreneur borrowers of FM's NGO clients. Nonetheless, the evaluator was favorably impressed with the knowledge these women had about their businesses and with the sense of themselves as economic agents with an active role in determining their own futures. Such positive attitudes are consistent with the newest streams in the Women in Development/Gender literature which insist that women's programming facilitate client empowerment instead of creating the dependencies inherent in conceptualizing women as passive beneficiaries.

5B. WOMEN'S PARTICIPATION IN PROJECT DESIGN AND IMPLEMENTATION

Women's participation in the project process has been constrained by the "top-down" nature of the project strategy. --USAID gender analysis guidelines emphasize the importance of women's participation in all phases of the project cycle to ensure that women, especially nationals, have a greater voice in the development programs which are supposed to benefit them. Although the project was written by a woman working for USAID, local participation in the conceptualization and design of the Fondomicro Project was not a widely participative process. Representatives from the NGOs themselves (men) said they were not as involved in the project design as they thought they should be.

There are few women with a concern for women's issues in FM's decision making positions. --The importance of the activism of women staff as WID policy entrepreneurs in development organizations has been emphasized by Nuket Kardam (1991) in Bringing Women In. Such women are critical to integrating WID concerns into organizational structures, policies, procedures, and programs. Organizationally, Fondomicro is dominated by male decision makers, not atypical of most Dominican organizations, especially financial ones. The three key managerial positions are held by men. Women are present in key professional positions, two of four of the institutional development trainer/accountants are women. One of these women was asked about the barriers women face to access to credit. Her response was that the major barrier is a societal one, the "machista" culture which assumes that men are better at business matters. In the past year, one woman, Raisa Gil de Fondeur, a senior executive vice president at Bancredito, has joined the Board of Directors, the first woman on a board of 9 members. Ms. Fondeur believes that a natural process is at work in the Dominican Republic which is slowly but steadily improving the social and economic status of women in the country. She is comfortable with the Board's awareness, through the MSU study, of women's activity in the microenterprise sector and doesn't sense a need for gender specific efforts by FM to assure credit needs are met.

ADOPEM is the only client NGO which is structurally organized to ensure women's participation in decision making processes. --(MUDE may become an additional one.) It is not surprising that ADOPEM's Board membership and managerial leadership is female-dominated. Eleven of fourteen board members are female as is the Executive Director and the Chief Financial Officer. What is noteworthy is that there is a General Assembly which consists (in theory) of all clients. The General Assembly elects the Board and deliberates on all new statutes and structurally oversees the Board's activities of strategic planning and program/policy design and approval. At least one member of the Board is an ADOPEM client. The evaluator was not able to observe the degree to which clients actually participate through these official structures.

Similar grassroots participative processes were not apparent in the other NGO structures for males or females. --Of the other NGOs, ADEPE has a new woman director, a Board of 15 men, and three women in professional positions. FONDESA's director is male, (the former director was female) but 6 of 15 management and professional positions are female. ADEMI's Executive Director is male, and opposes policies which favor women or men. Three of a nine-member executive committee which form organizational policy are women. Women occupy most of the accounting positions in ADEMI, but all the field officers ("assesores") who recruit clients are men, some 90 in all. ADEMI's executive believes that women do not want these positions because they involve riding motorcycles into marginal areas, sometimes after dark, and this is considered potentially dangerous by the women.

FM's research dissemination efforts have increased public knowledge about women's participation in the national microenterprise sector. --The publication of Patricia Cely's analysis of the gender-differentiated aspects of the microenterprise sector has been an important contribution in understanding women's activity in the sector. Additionally, FM allowed Hillary Cottam of the University of Sussex, to analyze the MSU data base. She has produced a draft of a report, "Women in Microenterprise: Productive Empowerment or the Feminization of Poverty". Her analysis indicates that women micro-entrepreneurs work longer hours for less economic return than men do. A feminist analytical framework questions the assumption that women's participation in the microenterprise sector represents dynamic, productive activity which provides women with a viable income. Plans are in process for a national seminar on women in microenterprises. Presentations by Cely and Cottam are planned, among others, which should contribute to a general increase in knowledge and dialogue on the important issues touched on above.

5C. CONCLUSIONS ON WID ISSUES

Women are not under-represented as beneficiaries of the FM project despite their lack of participation in the project planning and implementation process and the few women in decision making capacities in FM and most of the NGOs.

Women's lower share of FM's portfolio volume can be attributed to the smaller and growth-restricted nature of women's microenterprises in the country.

Despite the lack of a clear gender focus for the project, FM has performed to both serve women clients and to increase national awareness of women's activity in the sector through its research efforts.

Women are perceived as good borrowers and have contributed positively to the overall quality and viability of the FM project. Recruitment of women borrowers may have more transaction costs because of their smaller loans, the efforts which may be necessary to convince them to take credit, and their desire/need for training.

FM, has limited ability to affect the gender policies of its NGOs as it lends at near market rates.

FM is acting to strengthen women's share of the portfolio through its strategic plans to help ADOPEM grow and to begin technical assistance to MUDE, another women-only project. As these organizations grow and absorb more of FM's portfolio, the overall proportion of women end-users is likely to increase.

Information regarding women's borrowing patterns could be improved through the reporting of additional gender-disaggregated indicators.

With loans beginning at US$32 (ADOPEM), the project is providing access to credit for women micro-entrepreneurs who would otherwise be unable to obtain loans through the formal banking sector. It also contributes to AID's goal of broad participation in the benefits of growth by providing credit resources to a very poor target population.

5D. RECOMMENDATIONS ON WID ISSUES (In order of importance)

1. Improve the amount of information available in the system regarding women clients and their borrowing patterns. FM should include in its reports to AID the following indicators disaggregated by gender:

   average loan amounts
   % of total disbursement
   % of loans: under US$300; $300-1600; over $1600
   # ad % of new loans vs. repeat loans
   sectoral breakdown (commerce, industry, service)
   delinquency rates
   employment generation

   It should be noted that this type of additional reporting should not result in additional costs to the reporting NGOs. Ideally, FM could make minor modifications in the software now in operation in all of the NGOs, with the exception of ADEMI, which would enable more complete gender participation information at a minimum of cost. ADEMI's sophisticated data base should be able to address these reporting requests.

2. Create an Advisory Committee of NGO representatives to network on Women and Microenterprise Issues

3. Develop research strategies to identify women entrepreneurs ready, willing and able to move into the growth sector of microenterprise activity.

4. Utilize ADOPEM's expertise to train other NGOs in cost-effective outreach strategies to women micro-entrepreneurs.

5. Add one or two women with awareness of women's credit needs to the Board of Directors.

6. SELF-SUSTAINABILITY AND FINANCIAL RETURNS OF FONDOMICRO

6A. FINANCIAL SELF-SUSTAINABILITY

FM Will Easily Achieve Financial Viability by Project Termination. The Project Team and FM Director developed a conservative pro-forma projection for FM income statements through the end of the project This shows that FM will have a net worth at the end of project conservatively estimated at between RD$75M and RD$85M. While much is dependent on the prevailing exchange rate at that time, FM will probably have a capital base of more than US$5M. Costs of running the FM basic credit program are not high and were estimated at between US$150,000 to $200,000 excluding research and technical assistance which are scheduled to end. Given these numbers, FM would continue to capitalize itself year after year. FM could cover US$200,000 in administrative costs with its first four points of spread on its own capital. The spread has traditionally been much higher. Also, FM will probably access additional funds to on-lend, which will provide additional profits. This demonstrates that FM will have the capability of covering costs with ample room for protecting itself against loss, guarding against inflation, and capitalizing for future growth. If FM maintains its current loan spread, it would have an additional US$500,000 available for these purposes each year.

FM Has Already Achieved a Minimum Level of Financial Viability. If the project ended today, FM would still be left with a capitalization of US$4.1M (at current exchange rates). FM could fully cover its administrative costs with a 5 point spread on existing funds. As a result, one can say that FM has already achieved a minimum level of financial self-sufficiency.

The Current DR Financial Environment Is Helping FM Performance. The current economic and financial environment in the Dominican Republic is characterized by historically high real interest rates and relatively high spreads in the banking system. This provides an excellent "price umbrella." At the same time, the ISME sector has very limited access to credit from the official financial sector. This provides a favorable environment for high real interests and hence the capitalization of NGOs and FM.

Changes in the Environment Could Threaten FM But Would Probably Not Jeopardize Its Existence. A return of the 100% inflation of 1990 could threaten decapitalize FM. FM executives, who have lived through recent inflation, are aware of the threat and believe they could move quickly to adjust interest rates.

Financial Sector Competitiveness and Sustained Low Inflation Would Reduce FM Profitability. If the prime were to come down from its current level of 19% to 15% or below, it would reduce FM's spread considerably. Under this scenario, FM would be unable to capitalize as quickly as it now does. This would put pressure on FM to expand its volume as its margin narrows. The outcome, while positive for the economy and for borrowers, would put pressure on FM profitability and its capital base at the end of the project.

Changes in the Exchange Rate Could Also Affect Project Outcomes. The Dominican peso has enjoyed stability with the US$ for about three years while the Dominican economy has had higher rates of inflation. Interest rate differentials between the D.R. and the USA are significant. In the United States, short term treasuries provide a nominal return of 4% vs. 3% inflation. In the D.R. short term investments pay up to 15% in nominal terms compared with inflation of 4%. This favorable return has attracted capital and maintained the value of the peso. When these very high rates come down, the peso will devalue. This will reduce the US$ value of the FM portfolio and affect the end of project indicators in ways beyond the control of FM management or AID. Both the decline in interest rates and the devaluation of the peso will affect FM negatively and they will probably happen simultaneously! Dollar based EOP indicators are very dependent on the exchange rate environment.

6B. FINANCIAL RATE OF RETURN OF THE PROJECT

The Financial Rate of Return Estimated for EOP Is Attractive at 23%. FM has already generated about US$750,000 in profits to date. FM will probably have retained earnings of about US$2M at project termination. While estimates of the internal rate of return must be preliminary (much can change in the remaining years), it is still useful to run the numbers based on experience to date and the most realistic assumptions for the future. Sotero Peralta and Associates, the firm which has prepared the annual audited financial statements for FM, is the firm in the best position to make reasonable assumptions regarding the FM portfolio, cash flows, and profitability based on past experience. Peralta Associates cooperated in preparing the analyses of the financial rates of return found in Exhibits 18A and 18B. The first internal rate of return (IRR) was calculated on the basis of all total USAID project expenditures. The IRR for the project is estimated to be 23.05%. An IRR for FM was also calculated excluding USAID expenditures through Development Associates Inc. under the GEMINI project. This yielded an IRR of 38.56%. A project IRR of 23.05% is very attractive. It is explained in several ways. First, FM was designed to be a profitable project. It receives no or low cost funds and lends them out at attractive margins. As reflows mount, it receives this margin on ever larger amounts of capital. Finally, FM will be a going concern upon project termination and the ongoing profits on these future streams of revenue are included in the calculations. JAA and Sotero Peralta Associates also tested different assumptions and did a sensitivity analysis. These did not materially affect the financial rate of return. It was clear that the financial rate of return will be quite attractive as compared with most development projects.

7. COMPLIANCE WITH U.S. LEGISLATION, CONGRESSIONAL CONCERNS, AND AID GUIDANCE

7A. DOES PROJECT COMPLY WITH U.S. LAW AND CONGRESSIONAL CONCERNS?

The Project Team Found No Violation of U.S. Law. The project team took into account U.S. legislation restricting foreign assistance financing resulting in loss of U.S. jobs (H.R. 2295-29; Section 547), violation of workers rights (Section 502(a)(4) and the Trade Act of 1974 and other issues. On January 3, 1994, USAID/PPC in a general notice indicated that "Section 547 of P.L 103-87 was modified to exempt the informal sector, micro and small enterprises." However, the evaluation team took the underlying concerns into account anyway.

The evaluation team included questions on these subjects in interviews with FM personnel, with the NGO microenterprise lenders and to the microenterprises themselves. Specific questions were included on whether microenterprises might be "outsourcing" production for U.S. based firms or free trade zone firms in ways which might put at risk U.S. jobs in the textile or other industries. Questions were also included dealing with worker rights, child labor, violation of human rights, discrimination and other issues.

No cases could be identified of enterprises financed by the project causing current or potential loss of jobs to U.S. employees nor were there any cases of U.S. companies outsourcing or subcontracting production to Dominican-based microenterprises.

Questions were asked at all levels (FM, NGOs, and microenterprises) and no cases of violations of worker rights or child labor laws were identified. Children who are family members do work at microenterprises (as they do in family businesses in Europe or the United States). Unpaid adolescent apprentices do work in areas requiring technical skill such as car repair. The team was told by several NGOs that these adolescents tend to go to school part time and use the apprenticeship as a form of training prior to entering into the full time labor force.

With regard to the right of labor to organize, the issue rarely comes up in microenterprise as unions don't emerge in small businesses and many employees are family relations. Microenterprises, by one definition, are those which have less than 10 employees. No cases of anti-union labor were identified. On the other hand, worker safety and environmental issues deserve more attention. It was not within the scope and capability of this team to conduct extensive evaluations of ISMEs with regard to these issues. At the NGO level, these issues are beginning to come to the fore but there do not seem to be institutionalized efforts to raise consciousness or monitor these potential problems.

7B. DOES PROJECT REFLECT LATEST AID GUIDANCE?

The Project team sought to determine the extent to which the project reflected AID recent guidance. AID has had broad experience worldwide and has been a leader in identifying microenterprise as a force for economic development and as a solution to poverty. Therefore the project team assembled previous AID studies and the most recent agency guidance to determine if the project was consistent with these lessons and guidance.

FM Generally Follows and Promotes Policies Consistent With AID Guidance. AID lessons learned include the following: avoid subsidized credit, include savings mobilization, ensure adequate cost recovery and sustainability, recognize that the policy and institutional environment are critical, keep administrative costs to a minimum, implement controls on delinquency, and focus on existing enterprises rather than on schemes to create enterprises or transform them (Exhibit 19).

AID guidance stresses the lesson mentioned above and also stresses building viable financial intermediaries by using appropriately high interest rates and ensuring high repayment rates. It also adds balancing small business with workers' rights.

The project is generally consistent with this guidance except for the lack of focus on savings mobilization. Due to legal restrictions in the DR, neither FM nor the NGOs are allowed to take savings deposits. FM has, however, intensified its efforts to work with credit cooperatives which do stress savings mobilization. FM has recently assigned one of its technicians to work with AIRAC full-time (Exhibit 20).

8. LESSONS LEARNED AND THE FM PROJECT

8A . LESSONS LEARNED FROM THIS PROJECT

The evaluation team wishes to contribute the following reflections regarding the lessons to date of this project in the spirit of contributing to the final evaluation and in hopes that these may assist future ISME efforts in the D.R. and elsewhere.

A Second Tier (FM) Credit Strategy Will Only Work if There Are a Number of First Tier NGOs Already At or Close to the Take-Off Stage. -- FM success to date would not have been possible without ADEMI and ADOPEM. A second tier approach must assume the existence of a number of NGOs that are credit worthy or can soon become credit worthy. A second tier approach is less effective as an "incubator" of fledgling NGOs although such a role can be of value.

Don't Underestimate the Time and Effort Required to Make ISME NGOs Credit Worthy.--The amount of TA required to get NGOs to meet the Project Paper pre-conditions for credit was underestimated. Greater amounts of TA have been required to bring the accounting, control, and credit systems of NGOs up to speed.

Local TA For NGOs Is Preferable to Costly Foreign TA. -- The long term technical assistance offered by DAI under the Gemini Project in the early part of the FM project was regarded by FM as less effective and certainly less cost-effective than the TA now being offered by FM through Dominican professionals. The evaluation team agrees and notes that the TA required is basic, does not require specialized international skills, and is certainly available in the DR. Local TA has allowed FM to greatly expand its TA to NGOs.

The Combination of Solid Research, Quality Publishing, and Alliance With Opinion Makers Proved Particularly Effective.--This project combined a rigorous and internationally respected study methodology (Michigan State University), an effective publishing campaign, and an alliance with opinion makers (Fundacion Economia y Desarrollo) in a way which has had a profound impact on public opinion and policy debate in the Dominican Republic. All three elements are probably critical for replicating such impact in other contexts. Good research and glossy publications alone are probably not enough. The fact that a key FM board member is also the founder of an influential foundation and has access to press, radio and television also helped enormously.

The Project Confirms Previous AID "Lessons Learned" Reports. The project confirms previous AID lessons on the importance of stressing sound credit practices, the avoidance of subsidy, and rigorous loan recovery. As a result, the project will be self-sustaining. The NGO sector is adopting higher credit standards and many have improved their financial performance as a result. The Santiago based NGO, Fondesa, was able to trim delinquent accounts substantially after receiving TA under the project.

NGOs Alone Cannot Provide a Full Response to the ISME Sector; a Broader Approach is Needed. -- A traditional NGO lending approach cannot meet the full credit needs of the ISME sector. While the project has been successful in meeting real credit needs of microenterprise through NGOs, the NGO credit delivery capability is unable to respond to the magnitude of the demand. There is a hole in the market between "micro" and "medium" where the credit needs are not being adequately addressed. Advanced NGOs, such as ADEMI, are moving up-market and are making larger loans to enterprises that are beyond the "micro" stage.

Many Project Assumptions Did Not Prove True. -- The project design, as presented in the Project Paper, contains several assumptions that have not held true. To his credit, the FM Executive Director Mario Davalos identified three major fallacies in the project shortly after assuming his responsibilities under the project. From early 1991 these have been clearly documented and brought to the attention of USAID in written form. Mario called these the "dimension fallacy", the "bridge fallacy", and the "funnel fallacy."

1. The "dimension fallacy" refers to the Project Paper assertion that there are about 140,000 ISMEs, many of whom want credit. In fact, a more in-depth study undertaken by FondoMicro in conjunction with Michigan State University (1992) revealed that there are closer to 340,000 informal small and micro enterprises in the D.R. Can NGOs alone service the credit demands of a sector nearly twice the size originally contemplated? Project planners overestimated NGO capabilities to expand their portfolios and the amount and duration of technical assistance needed to qualify them for financing.

2. The "bridge fallacy" refers to the Project Paper's assumption that a second-tier institution is necessary to secure commercial bank resources for NGOs. In fact, Mr. Davalos and the evaluation team concur that those NGOs with established, viable lending programs could secure at least limited commercial bank financing, thanks in part to their influential board members. If they do not do so it is because they can get access to cheaper sources of capital. NGOs which could not access these funds suffered from a host of other problems: illiquidity, policies of non-recuperation, and general disorganization.

3. The "funnel fallacy" refers to the project paper's assumption that bilateral and multilateral donor agencies would recognize the merits of a second tier credit agency such as FM and therefore channel their aid to the sector through it. In reality USAID has been the only donor to channel credit resources through FM. The IDB provides its contributions directly to NGOs although they have also expressed interest in FM training and technical assistance.

4. To these fallacies identified by FM's Executive Director, the evaluation team adds a fourth fallacy: the "misnomer fallacy." The project is called the "micro and small business development project," while in fact it really only is

designed to deal with the micro sector, the sector served by existing NGOs. There seems to be a major hole in the market between "micro" and "medium/big." The needs of the "small" enterprise sector, a sector with great job-creating potential, are not being adequately met. While it was beyond the scope of this evaluation to assess the magnitude of the unmet demand, the evaluation team believes that the current project does not adequately address this segment. If USAID wishes to meet the needs of the small, as well as micro, sector, it must rethink its approaches and strategies. Such a strategy would include not only NGOs but also ways to work through and reform existing banking and non-bank financial institutions in ways that can enhance the responsiveness of the Dominican financial system to the needs of small scale entrepreneurs.

8B. FM AND LESSONS LEARNED FROM WORLDWIDE ISME/CREDIT PROJECTS

Differentiate Among Three Kinds of Microenterprise. Several recent studies have shown that the microenterprise sector has important subsegments. One segment is self-employed for survival sake (street vendors), another is self-employed for convenience (a taxi driver with no interest in developing a fleet of taxis or a woman who runs the store out of a room in her home while minding the kids), and yet another is truly entrepreneurial and seeks continually to grow, take risks and expand. Credit is not an issue for the first group, can be of occasional usefulness to the second, and can very much help the third when it comes time to grow. New employment generation and strong and growing credit demand comes from this third group. While they are the poor majority, they are not always the poorest of the poor. USAID must recognize that their may be tradeoffs between approaches which actively target the poorest of the poor and those which place primary importance on employment creation. FM supports both NGOs which target the very poor and disadvantaged (ADOPEM) as well as programs which do not have such a targeted approach (Exhibit 21).

OECD Has Identified Key Issues For Donor Support to Microenterprise. OECD has suggested that donors coordinate their efforts, include a focus on broader policy environment issues, ensure open and flexible programs that accommodate change, respond to local initiatives, channel assistance through self-help groups in amounts that can readily be absorbed, expand local projects to the national level, and create micro-entrepreneur communities. The FM project could benefit from greater donor coordination, an issue that will be treated below. The project could also benefit by a flexible approach which allows for modifying strategy. However, the project is helping some regionally-based NGOs expand their presence on a larger and even national scale. (Exhibit 22).

Dale Adams, A World Expert on Credit Programs, Presents 10 Lessons. Dale Adams, a noted and quoted expert on rural credit programs has catalogued 10 major lessons, many of which are relevant to urban microenterprise lending. The FM project is remarkably consistent with most of these. FM provides credit more cheaply than banks but also ensures that it receives a healthy spread. FM does not use directed credit but through NGOs lets the market allocate. Loan recuperation is stressed. Diverse and competitive financial institutions are being fostered and used. However, Dr. Adams' stress on the importance of savings mobilization is the one element notably absent. FM cannot target savings mobilization through NGOs due to legal restrictions in the DR. Nevertheless, FM is working with credit cooperatives through AIRAC and has assigned one technical assistant full time to work with them (Exhibit 23).

The World Bank Has Also Found Common Factors in Successful Financial Institutions (Exhibit 24).The World Bank identified success stories worldwide (mainly Indonesia, Thailand and Bangladesh) and isolated the common factors for success. They included a stable economy and non-controlled interest rates. They stress managing for profits, high loan recuperation, and positive interest rates all of which are visible in the FM project. The automatic renewal of credit to good borrowers, incentives and penalties for early or late payments, and other measures are also present among NGOs and encouraged by FM. The current project is consistent with the policies which the World Bank found in successful projects worldwide.

9. FINDINGS AND CONCLUSIONS

9A. HOW TO OVERCOME THE CREDIT DELIVERY BOTTLENECK?

The credit delivery bottleneck is probably the central project issue so it will be dealt with at some length. There are several options for dealing with it.

1. Lend More to ADEMI. The easiest and quickest way to boost credit volume is for FM to increase disbursements according to market share. This would mean lending more to ADEMI which can easily accommodate the additional credit. But this would deepen FM's dependence on one client which represented 83% of its portfolio in 1993 and will still be 75% of its portfolio in 1994. ADEMI does not need FM technical assistance, nor an intermediary to help get bank credit, nor a bridge to other donors. If USAID should decide that its strategy for funding ISMEs rests on backing one large, proven, and well managed organization (ADEMI), it would make more sense to fund ADEMI directly and not bother with a second tier lending strategy.

2. Actively Develop A Wide Variety of Smaller "Fledgling" NGOs. If AID strategy is to hatch new NGOs or to play a major role in developing full fledged lending capabilities in relatively small NGOs, a major change in project approach will be required including a strategy for capitalizing these NGOs and providing major inputs of technical assistance for a multi-year period. The evaluation team believes that this may be a valuable approach, but the obstacles to success are greater than those envisioned in the Project Paper. Other donors, such as the IAF and IDB, already have grant or soft loan programs that can help these groups in their early stages of development. The evaluation team believes that an effort to target these smaller groups will require additional AID or other resources. However, with little additional effort, FM could provide some important linking services to this sector.

3. Lend Direct to ISMEs. If the bottleneck is not with ISME demand but with the NGO delivery mechanism, some would argue that FM should try to go direct to the ISMEs. But this would put FM in direct competition with its NGO clients. FM is not currently set up to do this. It does not have a field network to handle this kind of lending. Better to let specialized NGOs continue handling this function and specialize in assisting them in doing it.

4. Focus On Small (Not Just Micro) Business. Another option would be to target small business either directly or indirectly. This is the idea driving the possible investment in a Small Business Bank which will be analyzed in more detail later.

5. Target the "Avis" NGOs (Second Rank But Trying Hard). By concentrating its newly expanded but still limited T.A. resources on 5-9 second tier microenterprise lenders, such as ADOPEM, FONDESA, MUDE, ADEPE and the credit union movement, FM is more likely to make greater progress towards its lending goals. After all, the ultimate goal is the number of ISMEs receiving credit, not the ultimate number of NGOs providing it. Nonetheless, it is an advantage to have different NGOs with different strategies, approaches and target groups. ADOPEM and MUDE may be uniquely able to reach very poor women. FONDESA and ADEPE may be able to serve regional needs. And strengthening AIRAC could have a significant impact on meeting rural credit needs nationwide. The "Avis" strategy seems to be the current FM approach. Its ability to help these Avis NGOs expand will be acid test of the success or failure of USAID's second tier strategy.

9B. DOES LACK OF FM ACCESS TO OTHER SOURCES OF FUNDS REPRESENT AN OBSTACLE TO PROJECT SUCCESS?

To date, this has not been the obstacle. Although AID frequently raised the issue over the last several years, this is not the central issue according to the evaluation team. It is highly likely that FM could get access to the capital markets when the time comes. IDB financing, through the global microenterprise project, has about a 33% probability of being channeled through FM, which speaks well of the credibility which FM has gained in a short period of time. The issue, as has been pointed out, is really one of absorptive capacity in the distribution channel, not access to additional sources of funds.

9C. IS FM CHARGING THE APPROPRIATE LOAN RATE?

This issue was dealt in the Outputs section above and will not be treated again in depth here. The current loan rate of 80% of prime is appropriate for the project purposes. As it was stipulated by AID in the Project Paper, it forces NGOs to be weaned off subsidized credit, and ensures the long term viability of FM. Greater capitalization of NGOs can be better achieved by helping them institute sound credit practices rather than by providing a bigger discount on the rate. Furthermore, FM cannot reduce its loan rate much without jeopardizing the eventual feasibility of raising funds from the capital markets and passing them on to the NGOs. One cannot argue both that FM should lower its rate (by much) and that it should eventually expand its lending by tapping the capital markets.

9D. IS FM SUSTAINABLE?

FM is very sustainable as long as current management practices continue. The Evaluation Team believes that FM will be financially and organizationally sustainable barring major unforeseen circumstances such as the departure of key executives, changes in credit practices, changes in the regulatory environment, or a return of inflation.

9E. WHAT FACTORS IN THE BROADER POLICY AND ENABLING ENVIRONMENT IMPINGE UPON SUCCESSFUL INTERVENTION IN THE MICROENTERPRISE SECTOR?

The Existence of an Informal Sector Demonstrates Weaknesses in the Legal and Regulatory Environment. Microenterprises exist in both the formal and informal sector. The existence of an informal sector which does not register, or secure licenses, or pay taxes illustrates weaknesses in the existing legal and regulatory environment which impedes the formation and expansion of small business. The general environment of corruption, which affects all businesses, also affects microenterprise.

High Real Interest Rates Impede Microenterprise Expansion.. While GODR policy has reduced inflation, it has also resulted in high real interest rates. Inflation in 1993 has been estimated at about 3-4% while the prime rate is 19%. Rates for small and more risky businesses are substantially higher. The high cost of credit acts as a drain on microenterprise expansion. FM surveys have indicated a decline in the overall numbers of microenterprises in 1993. However, approximately one-third of microenterprises did continue to grow, resulting in a net job gain of 10%.

Public Services, While Improved, Still Limit Microenterprise. Access to basic public services such as water, transport and electricity is problematic and affects small business. One of the most serious constraints for microenterprise has been the unreliability of electric power. Many microenterprises went out of business during the severe energy crisis of 1990 and 1991. Things have improved somewhat since then but basic services are still deficient and impede microenterprise expansion.

Microenterprise Associations Are Generally Weak In Their Ability to Affect the Enabling Environment. There are two major microenterprise associations. One is the Association of Small and Medium Sized Enterprises and the other is the Confederation of Small and Medium Sized Enterprises. Neither is seen as being particularly effective in efforts to change the enabling environment for small business.

However, the Environment of Credit Scarcity and High Real Interest Rates Creates a Niche for NGO and Other Credit Providers. NGOs and other credit providers to the microenterprise sector enjoy a favorable environment for their services. Scarcity and high cost of credit provide an opportunity to fill a need. It has also provided FM the opportunity to enjoy a spread of 17 points as a first tier bank and an average spread of well over 20 points for NGO on-lending. These healthy spreads (or high "prices") cannot be expected to continue forever.

New Legislation Now Limits Exemptions on Private Sector Grants to NGOs. Recently introduced tax legislation only allows exemptions of 5% of company profits which are used as charitable contributions. While it is unclear what practical impact this has had, it may limit the ability of NGOs to campaign vigorously for tax deductible contributions.

9F. SHOULD FM TAKE A MORE "DEVELOPMENTAL" APPROACH?

Some NGOs believe that FM should take on less of a bankers mentality and more of a developmental mentality. This would mean lowering spreads and being less aggressive on loan recuperation. The evaluation team recognizes that certain NGOs need to be capitalized and that certain very poor communities may require a different approach. But other vehicles exist for this including the USAID PVO project and the grants of the IAF. The evaluation team does not believe that FM should lower its standards or change its philosophy and this opinion is solidly based on "lessons learned" by AID, other donors, and those who have studied the successes and failures which have littered the landscape of development history.

9G. HOW HAS DONOR COORDINATION BEEN HANDLED?

Have Other Donors Undermined the Role of FONDOMICRO? By lending directly to NGOs, by lending at highly subsidized rates, and by indicating (briefly and erroneously) that FM clients might not be eligible for IDB financing, IDB programs worked at cross purposes to FM. FM, which lends at 80% of prime (currently at about 19%), saw itself as competing with the IDB which lends at 1-2% with a grace period of 10 years and for a period of 40 years with no foreign exchange risk carried by the NGO. But even IDB is now considering FM as an implementation agent, at least for TA. The evaluation team regards the IDB approach as complementary as it helps small NGOs get initial capitalization.

AID Dialogue With the IDB in Santo Domingo and Washington Could Be Very Useful. AID could help strengthen the overall microenterprise lending sector by dialogue with the IDB regarding the policies and criteria which shape projects. For example, the IDB only insists on "positive" interest rates while AID has sought "market" oriented interest rates.

The IDB Has Found the AID FM Project Useful. IDB officials interviewed in Santo Domingo expressed their praise and appreciation of the various studies on the sector undertaken by the project. These studies have proven useful to the IDB which has found them to be by far the most useful sources of information on the sector. The FM experience on credit has also been instructive.

The IAF Is Playing a Useful Role In Assisting Smaller NGOs. The Interamerican Foundation has played a useful role in providing seed capital and assistance for small, emerging microenterprise lenders which may be too small to absorb FM assistance and 17% credit.

9H. HOW DOES BANKING REFORM AFFECT PROJECT AND USAID STRATEGY?

As was mentioned earlier, the project addresses the needs of the "micro" sector through NGOs but does not address the needs of the "small" enterprise sector. This has become an especially urgent issue with the current banking reform, the implications of which were analyzed by the team.

Financial Sector Practices Limit Small Business Access to Commercial Bank Credit. To understand why small Dominican banks neglect small business, it is important to understand the evolution of the financial industry and the current banking practices. The FM Executive Director and other long time observers of Dominican banking have noted that in the 1970s and early 1980s, banks lent to small business and even microenterprise through personal banking and personal loans with small credit lines. Inflation, devaluation and subsequent monetary restriction in the 1980s resulted in changing bank practices. Today, bank approvals focus more on larger sized clients with ample collateral and guarantees. The result is that credit goes to those already well established. With the rapid expansion in financial institutions in the 1980s, the profile of the credit officer began to change as these began to devote less attention to the evaluation of credit risk of projects and paid more attention to the quality of the guarantee (i.e. richer clients) and to the administration of accounts.

The Bias Against Small Business Lending Is Reinforced by the "Normas Prudenciales" of the Current Financial Sector Reform. The "Prudential Norms" (Normas Prudenciales) established by the Central Bank are making bankers more risk averse than ever when it comes to small business lending. These norms provide substantial penalties for inadequate reserves against risky loans. This makes bankers even more anxious about having large collateral backing up their loans. By definition, those companies with large collateral are well established and larger. This may make it more difficult for smaller and newer entrepreneurs to get access to credit from the formal banking sector.

Traditional Development Banks Are Disappearing. Since the 1960s, development banks have sought to provide credit on favorable terms to projects and sectors that were viewed to be areas of economic, social or regional priority. Current banking reform has eliminated the rationale for these banks which have largely disappeared or been folded into the "multi-bank" organizational structure.

Changes in the Banking Sector Also Provide New Opportunities. Banks will have more flexibility in setting interest rates according to market forces and may now be willing to lend at higher to smaller and more risky projects if the interest rate can justify the larger administrative expense and risk. Also, at least one major development bank is considering conversion to a small business bank. The largest microenterprise NGO lender and several banking groups are evaluating the merits of creating a small business bank or other financial institution which would target this sector.

A USAID Approach Which Ignores Financial Sector Reform and Its Impact on Small Business Have Only Partial Impact. As has been shown, the ISME universe is much larger than previously thought. FM believes that it will only be able to channel US$12M through NGOs by the time the project ends. While the NGO approach has been successful from a cost-benefit point of view, a much larger impact is needed. Additional and complementary approaches are required and these will probably require working with and through the formal financial system.

9I. WHAT OPTIONS EXIST FOR CHANNELING MORE CREDIT TO THE SECTOR?

This issue deals with possible approaches or projects, different from the current project, which might have a greater impact on the overall purposes and goals.

1. Fund An NGO Development Project. Helping to create and finance new NGOs to lend to this sector has been shown to be a long term, time consuming approach. One should not underestimate the challenge of creating or transforming NGO microenterprise lenders into ADEMIs, or even ADOPEMS. It will not have a large impact on credit volume in the short or medium term. To some extent the IAF and IDB are already doing this. The advantage is that these NGOs often target more destitute or disadvantaged populations.

2. Use a One Tier Approach to Fund ISME Lenders. An alternative to the FM approach is to provide funding directly to NGOs. The two tier FM approach requires a double margin and a double administrative expense. AID could provide funds to one, two or three of the largest NGOs directly. This could lead to a more rapid capitalization of the NGOs. USAID has chosen to work through FM because it believes in the value of an intermediary organization which can qualify NGOs, provide TA and training, and continually monitor the soundness of the NGO credit administration.

3. Work Through Credit Unions and Similar Organizations To Get Credit to the Disadvantaged. USAID/Santo Domingo has experience with rural savings mobilization in the Dominican Republic and so is in a good position to judge relative merits of the two approaches. These movements have had notable problems in developing countries, but still represent one of the best solutions to the credit needs of the disadvantaged. The most successful model in the world today of the cooperative model that combines savings mobilization with lending is Rabobank. It has over 100 years of successful, profitable operation, has never accepted a penny of government subsidy, emerged as a response to the needs of poor people, and is now among the most successful banks in the world. The credit union association, AIRAC, which was a direct result of AID assistance and is perhaps the best hope for a well managed credit union movement in the Dominican Republic.

4. <u>Work Through the Formal Financial Sector to Enhance ISME Credit Access.</u> The inability of small and micro business to get access to even personal lines of credit from the formal banking system points out a market failure that should be addressed. The FM Director reports that 20 years ago Dominican banks provided loans to small business based on personal lines of credit. Conditions in the financial sector resulted in a change to guarantee-based lending. This option would require a feasibility study beyond the scope of this evaluation. The tendency of current banking reform, especially the new "normas prudenciales," would indicate that lending to smaller and riskier projects will face potential penalties and will be even less likely in the future.

5. <u>Support an Innovative Small Business Bank</u>. The directors of both ADEMI and FM, along with the head of at least one Dominican development bank, articulated a vision for a bank, finance company, or other formal financial institution which would target small and medium sized business and do banking the old fashioned way: lending based on the merits of the project and a thorough assessment of the character and history of the borrower. They are convinced that the time is again ripe for a bank which would focus on the needs of the small and medium sized business and that such a bank could be very profitable and could lead to the emergence of other similar banks. If true, this could have a very important impact in the "democratization of credit." If the model were tried and proven profitable, the impact in terms of credit expansion could dwarf even the best projections for the current project in terms of employment generation and wide participation in economic growth. AID regulations on this matter state that project reflows must be used for eligible program objectives. The FM Manual, approved by AID, provides more flexibility and states that "the interest payments generated by the loans made by FondoMicro may be used for any purposes stipulated by the Board of Directors." This issue should be resolved sooner rather than later.

10. SUMMARY OF RECOMMENDATIONS

10A. RECOMMENDATIONS TO FM

1. Maintain Lending Rate Policies. --FM's credit price and quality policies are justified and should be maintained to protect its capital, grow its base of lending, and to set market oriented and high credit quality standards for the industry.

2. Continue Policy of Using Lowest Cost Funds First.--The FM policy of using lowest cost (AID/GODR) funds is sound. As NGO credit demand increases, the need for tapping into other funding sources will emerge. For the time being there is no reason to seek commercial bank lines of credit regardless of the input schedule and targets in the Project Paper. The evaluation team has recommended that USAID not continue pressing the issue.

3. Focus T.A. on NGOs With Potential to Become Major Lenders. --The evaluation team agrees with FM that, apart from recommendation #4, FM should focus T.A. on those NGOs which show promise of a greatly expanding portfolio. The ultimate goal is the number of ISMEs receiving credit, not the ultimate number of NGOs providing it. Although FM should provide limited T.A. and involvement to small NGOs, it is justified in providing the bulk of its accounting and managerial T.A. to those NGOs which show the greatest promise of reaching a "takeoff" stage in lending.

4. Continue the Excellent T.A. Program But Add One Person to the T.A. Staff Responsible for Networking and Assisting Smaller NGOs. -- (Note: FM and USAID/Santo Domingo reported in June that FM has already acted on this recommendation.) The cost of this one additional person would not be great nor should it take away from or dilute the primary FM role as a credit (vs. TA) provider. Furthermore, this networking function could result in advantages to FM in terms of more involvement with donors and with new clients. This one action could effectively address USAID concerns about extending technical assistance to smaller NGOs. The evaluation team recommends that the scope of work for this locally hired person should include:

    a. Develop and maintain a database of the universe of NGOs in the D.R. working with or having credit programs for microenterprise.

b. Catalogue the national and international programs of assistance, which can help fund, capitalize, and provide T.A. to these NGOs as a way of serving as a bridge between ISME NGOs and sources of assistance.

c. Train NGO personnel in proposal development to get access to existing programs of assistance

d. Provide some initial technical assistance to these NGOs and assess the constraints to their becoming eligible for FM credit.

e. Prepare periodic training seminars in basic accounting, credit evaluation, and loan recovery for NGO credit programs and/or ensure their inclusion in pre-existing courses on these topics.

f. Conduct a baseline survey of needs of small NGO credit programs and prepare an annual program of assistance and work plan.

g. Provide quarterly reports to the FM Institutional Development Director on the universe of NGOs, new NGOs, potential new FM clients and other topics as may be deemed useful.

5. Include in future reports to AID the following indicators disaggregated by gender:

average loan amounts
% of total disbursement
% of loans: under US$300; $300-1600; over $1600
# and % of new loans vs. repeat loans
sectoral breakdown (commerce, industry, service)
delinquency rates
employment generation

6. Seek Additional Funding to Continue Research and T.A.--If the project succeeds, it will have demonstrated the utility of T.A. which should be continued and directed to additional NGOs. Funding should also be sought for a continuation of the research activities including an annual update of the baseline survey, studies related to credit access by women, by the very poor and other disadvantaged groups, and studies which respond to specific managerial needs of NGO credit programs, designed with active NGO participation, and providing information and analysis which can improve loan decisions, target key growth segments, and improve overall performance.

7. Promote the Emergence of a Small Business Bank. --The evaluation team agrees with the FM Director and Board Members who feel that they have a role to play in promoting the emergence of a small business bank. FM expertise can make an important contribution to this initiative in various ways. FM can make formal requests to international donors and is in a position to dialogue with local and international providers of capital. Such an initiative has the potential to make a great impact and falls within the overall goal of stimulating credit to the micro and small enterprise sector.

8. Clarify Acceptable Uses of Project Reflows and Follow USAID Counsel on the Matter. FM should not let any disagreement over this issue detract from the shared interest which FM and USAID hold in promoting the democratization of credit in the Dominican Republic. If FM wishes to use profits from operations to invest in a small business bank, it should seek immediate and formal clarification of the here-to-date informal questions which have been raised regarding whether this does or does not violate any terms of agreement between FM and AID. If AID cannot demonstrate a legal constraint but still expresses a strong opinion against doing so, the evaluation team's opinion on the matter is expressed below and it recommends alternatives to capitalizing the effort.

10B. RECOMMENDATIONS TO AID

1. <u>Drop the Issue of FM Access to Commercial Bank Loans and Revise Input Schedule Accordingly</u> -- FM should not experience great difficulty in getting access to the capital from different sources when the need arises. The most important thing to monitor is that GODR financing (at the relatively low cost of 12%) is received on a timely basis once FM has sufficient credit demand to use it.

2. <u>Revise EOP Targets for Outputs, Purposes and Goals</u>. -- The following specific new targets should replace the previous End-of-Project Indicators:

    a. FM portfolio of loans at US$12M

    b, FM lending to 12 NGO credit distributors who meet the FM standards for sound credit practices and other FM credit eligibility criteria

    c. 40,000 ISMEs receiving credit through NGO clients of FM

    d. Goal indicator of 26,000 jobs created by ISMEs funded by FM's NGO clients

    e. Goal indicator of 120,000 jobs created and/or strengthened. (Note: this figure is an extrapolation based on current reporting by NGOs of "jobs created or strengthened." It was outside the scope of this team to investigate the methodology used and the validity of figures currently being reported by NGOs. The validity of these multipliers should be checked in a future FM research study if funding can be obtained for such ongoing research efforts.

3. <u>Revise Key Project Assumptions</u>. AID assumptions at the outset of this project were incorrect and AID should now revise those that were written into the project paper:

    a. The relevant universe of microenterprise NGOs from which to draw FM clients is about 25

    b. Substantial investment of T.A. is required for NGOs to meet credit eligibility criteria

    c. FM lending capability is constrained mainly by the absorptive capacity of existing credit worthy NGOs (not access to capital)

d. Small NGOs require not only T.A. but initial capitalization which is sometimes available from other sources (IDB, IAF, European donors).

4. Monitor the Project More Carefully if There Is Change at the Top of FM. -- Should the current Executive Director of FM decide to leave for any reason, USAID should monitor the situation very carefully. Much of the FM success may be attributed to dynamic and capable leadership by the FM Executive Director. Although there is now a second in command who has substantial prior financial institution experience, FM has historically been heavily dependent on the leadership of the executive director and any transition to new management should be observed carefully to ensure that this will not affect project outcomes.

5. Clarify Acceptable Uses of Project Reflows. USAID should immediately clarify its legal position as well as its advice regarding the potential use of FM profits (project "reflows") for the purpose of investing in a small business bank. If USAID determines that existing agreements between AID and FM do not allow this then communicate this formally. If FM is not legally bound but USAID wishes to advise against this, then the reasons should be clearly spelled out and FM should have the opportunity to respond. The evaluation team advised FM (in Santo Domingo and in written form above) to go along with USAID counsel on this matter.

The evaluation team believes that a small business bank is needed and that FM could have an important role to play in helping to get this off the ground. The issue is whether FM profits should directly capitalize such a bank. We think it should not for two main reasons. First, USAID understood that FM was designed to channel credit to NGOs rather than make direct investments in for-profit ventures (regardless of what the FM statutes may allow it to do) and provided funding on that basis. Second, an effort to use FM profits to start a small business bank that would potentially compete with ADEMI and in which ADEMI chooses not to participate would exacerbate the current disagreements between FM and ADEMI which in turn could threaten to significantly diminish the scale of the FM core operation. In short, ADEMI could view this as direct competition and actively move to replace FM credit with other sources. This could undermine FM ability to maintain the NGO client which still accounts for over 3/4 of the FM lending portfolio. This lone event could push the project from the "success" column to the "fail" column in terms of meeting its end of project targets. This issue is one of the few areas where the project team and the FM Executive Director disagree. He believes this represents a lack of imagination and an overly conservative approach by the evaluation team. But the main criteria and concern of the team in this assignment is the success of the existing project.

6. USAID Should Seek To Make a Broader Impact on Country Goals By Adding a Small Enterprise Initiative to Its Current Efforts. USAID can build on its current success in the micro-enterprise area by playing a catalytic role in sparking or pump-priming a response to the needs of the small enterprise sector which are not being effectively addressed under the current project. If USAID wishes to promote a truly participative approach to sustained economic development, the democratization of credit in the formal financial system has got to be addressed.

The level of USAID involvement could at a minimum provide moral support and facilitate contact with the IFC, IDB, and European sources of funding. It could also include substantial involvement with initial credit. But the evaluation team recommends that rather than funding one particular venture by one group, USAID could provide initial feasibility studies (available to all interested parties). Involvement on the credit side is a possibility, although local sources of capital should also be available. These actions by USAID could result in decisive action and local initiative in launching small business banks. If that happens, USAID will have made a major contribution to meeting USAID country goals and to the DR.

7. Finance a Serious Feasibility Study for Small Business Banking. The scope of work for such a study would include the following:

a. Determine aggregate demand for credit from the small business sector

b. Determine current sources of small business finance and the interest rates being paid

c. Confirm the interest of the 10 major banking groups in the D.R., of NGOS (ADEMI, FM, etc.), and current or former development banks in launching a small business bank or similar credit institution

d. Evaluate the fixed costs of a small business bank, average loan size, margins, and break-even volume

e. Analyze the implications of existing legislative and regulatory reforms and their impact on the feasibility of small business banking

f. Recommend whether small business credit needs can be met within the context of the formal banking system as it currently exists and whether these needs can be met outside that context through existing NGOs, finance companies, or informal lenders

g. Provide guidance for any further USAID involvement in this sector.

8. <u>Include Existing or Former Development Banks and the Credit Union Association (AIRAC) in Dialogue On This Issue</u>.-- These groups know a lot about channeling credit to small business and can help USAID to shape its efforts. An effort to get credit to small enterprise in rural areas should involve AIRAC. Development banks also have a history of lending to smaller, disadvantaged, or socially useful sectors and their knowledge is valuable in shaping a strategy. The founder of the first development bank in the D.R. has expressed active interest in transforming this development bank into a small business bank.

9. <u>Utilize Centrally Funded AID Programs to Support ISME Efforts Here</u>.--Specifically, USAID/Santo Domingo should investigate the possibility of utilizing the AID/Washington loan guarantee program and/or centrally funded buy-ins and technical assistance as a way of supporting the establishment of small business banking. USAID encouragement could make the difference in whether such a venture gets launched. It could have powerful implications for the democratization of credit and long term structural reform and the timing is good for action.

10. <u>Revisit the Project In One Year To Measure Progress</u>. -- The evaluation team found that it was too early to evaluate FM's newly created T.A. department and its impact in ameliorating the credit bottleneck among second tier "Avis" NGOs. USAID may wish to have one more mid-course look at the project prior to its termination. This effort would have a limited scope and should not cost more than about US$25,000.

11. <u>Dialogue with Donors</u>. USAID pioneered assistance to this sector but has since been joined by the IDB, the IAF and European donors. The IAF and IDB efforts complement the existing project by providing seed money to fledgling NGOs which might later qualify for FM credit. Efforts to address small business lending should involve other donors at an early stage to avoid duplicating efforts or working at cross purposes.

PRO- [illegible] STATEMENTS 1994-97 (RD$ 000s)

	1993	1994	1995	1996	Jun 97
Cash	1,500	1,241	1,852	1,379	1,721
Cash Equivalents	7,150	5,500	5,500	5,500	5,500
Gross Portoflio	57,281	72,200	79,075	86,698	93,996
Loan Loss reserve	(2,268)	(2,888)	(3,163)	(3,468)	(3,760)
Net Portfolio	55,013	69,312	75,912	83,230	90,237
Fixed Assets	1,357	1,466	1,583	1,709	1,846
Other Assets	226	244	264	285	307
TOTAL ASSETS	65,246	77,763	85,111	92,103	99,611
Loans Taken					
STP	12,810	19,048	19,048	19,048	19,048
BANKS	0	0	0	0	0
OTHERS	0	0	0	0	0
Other Liabilities	0	0	0	0	0
TOTAL LIABILITIES	12,810	19,048	19,048	19,048	19,048
Initial Net Worth	47,043	52,436	58,714	66,062	73,056
Current Earnings	5,393	6,278	7,348	6,993	7,507
TOTAL NET WORTH	52,436	58,714	66,062	73,056	80,563
TOTAL LIABILITIES AND NET WORTH	65,246	77,762	85,110	92,104	99,611
Proof	0	0	0	(0)	0
Income from Loans	9,487	11,006	12,858	14,091	15,359
Interest Expense	1,4[illegible]4	2,286	2,286	2,286	2,286
Other Financial Income	789	660	660	660	660
Net Financial Income	8,853	9,380	11,233	12,465	13,733
Total GA Expenses	2,742	3,869	4,449	5,117	5,884
Net Operational Income	6,111	5,511	6,783	7,348	7,849
Loan Loss Reserve	1,265	597	275	305	292
Other Reserves	153	50	50	50	50
NET PROFIT (NO TA, NO RESEARCH)	4,693	4,864	6,458	6,993	7,507
DONATIONS FOR OPERATIONS	1,767	1,414	890	0	0
DONATIONS FOR TA AND RESEARCH	2,440	3,907	2,675	1,737	1,737
TA,RESC,COMM,AUDIT EXPENSES	3,506	3,907	2,675	1,737	1,737
NET FINAL PROFIT	5,394	6,278	7,348	6,993	7,507

<u>Assumptions</u>:
- 4% Loan Loss Reserve, 17% interest rate.
- Slow Growth Scenario (FM lends only own funds and STP)
- Current inflation and interest rates prevail, G & A only covers credit operations.

<u>Results</u>: FM grows at 10%. Interest rates could fall to 17% without decapitalization taking place. But FM must raise rates if inflation returns.

SOURCE: FM Baseline Data; Projections made by FM Director and Evaluation Team.

MID-TERM EVALUATION OF FONDOMICRO PRELIMINARY FINDINGS

Exhibits

J.E. Austin Associates

EXHIBIT 1

METHODOLOGY USED IN EVALUATION

- Reviewed USAID and FM Documents
- Reviewed Recent National Microenterprise Studies
- Gathered "Lessons Learned" from IDB, IBRD, OECD, and AID
- Interviewed
  - AID Personnel
  - 10 FM Staff
  - 6 Existing NGO Clients
  - 6 Non-Client NGOs
- Utilized Project Logframe to Assess Accomplishments
- Analyzed Strategic Alternatives per JAA Frameworks

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EXHIBIT 2

AID Money Came Faster, Others Slower than Anticipated	INPUTS

FUNDING SOURCES AT END YEAR 3
(US$ Millons)

Source	Planned	Actual
AID	$2.0 M	$3.8 M
GODR	$2.0 M	$1.0 M
Local Mkts.	$1.5 M	$0.2 M
IDB	$2.0 M	$0
TOTAL	$7.5 M	$5.0 M

* Credit line available but not used.

Source: FM, USAID Documentation, Project Paper (Annex E, p.5) February, 1994

Exhibit 3

USAID Financial Status Report 3/2/94
Micro and Small Business Development Projects

REPORT ID: MXRMP19
OPTION NO: 2
REPORT DATE: 03/02/94

USAID / DOMINICAN REPUBLIC
PROJECT FINANCIAL STATUS REPORT
AS OF: 03/02/94

REPORT PAGE NO: 6
MISSION PAGE NO: 6

CURR. CODE : 001 CURRENCY NAME : U.S. DOLLARS
PROJECT NO : 5170254.00 PROJECT TITLE : MICRO & SMALL BUSINESS DVLP. PROJECT OFFICER : LAIRD, LARRY

PROJECT ELEMENT NO. / GRANT OR LOAN / EARMARK DOCUMENT NO. / COMMIT. DOCUMENT NO. / COMMIT. END DATE	PROJECT ELEMENT DESCRIPTION / EARMARK DESCRIPTION / COMMIT. DESCRIPTION / AGENT/CONTRACTOR	OBLIGATION(O) / EAR. RESV.(ER) / EARMARK (E) / COMMITMENT(C) / COM. RESV.(CR)	DISBURSEMENTS	ACCRUALS	PIPELINE / UNLIQUIDATED	ADVANCES
ELEMENT NO : 7	EVALUATION					
GRANT:						
CO-517-0254-C-00-4059	PRJ. MID-TERM EVALUATION					
022894	J.E. AUSTIN ASSOCIATES	45,169 (C)	0	[illegible]	45,169	0
AVAILABLE FOR COMMITMENT/RESERVATION		10,131			10,131	
GRANT BALANCE AVAILABLE FOR EARMARK RESERVATION		245,000			245,000	
ELEMENT TOTAL:GRANT		308,300 (O)	0	0	308,300	0
[illegible]	AUDIT [illegible]	125,000 (O)	18,171	0	106,829	0
GRANT:						
[illegible]	[illegible]	10,500 [illegible]				
[illegible]	[illegible]	10,500 (C)	[illegible]	[illegible]	329	0
PIL/I-517-0254-0-40017 RDS 94 BUDGET/AUDIT		18,400 (E)				
PIL/I-517-0254-0-40017 RDS 94 BUDGET/AUDIT		18,400 (C)	0	0	18,400	0
[illegible]	FONDOMICRO [illegible]					
GRANT BALANCE AVAILABLE FOR EARMARK RESERVATION		88,100			88,100	
ELEMENT TOTAL:GRANT		125,000 (O)	18,171	0	106,829	0
[illegible]						
GRANT TOTALS		7,250,000 (O)	4,852,581	0	2,397,419	580,487
LOAN TOTALS		0 (O)	0	0	0	0
PROJECT TOTAL		7,250,000 (O)	4,852,581 ✓	0	2,397,419	580,487

+ 580,487
5,433,068

Source: USAID/ Santo Domingo, March 1994

BEST AVAILABLE COPY

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EXHIBIT 4

FM Has Loaned 61% of Target for Year 3	OUTPUTS

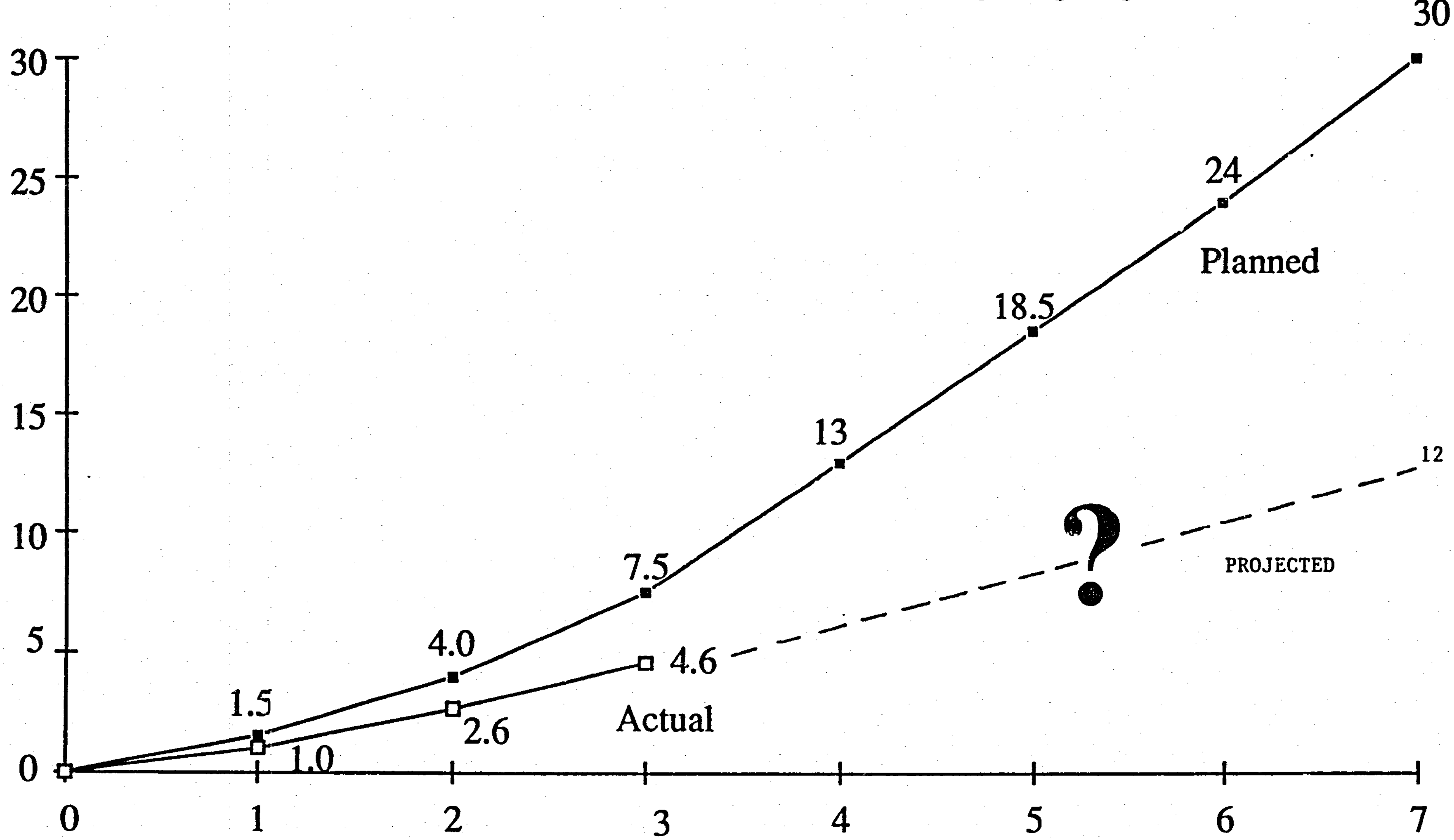
PORTFOLIO TOTALS BY YEAR
(US$)

	Planned	Actual
Y_1	1.5 M	1.0 M
Y_2	4.0 M	2.6 M
Y_3	7.5 M	4.6 M

Source: Project Paper (p.21), FM Documentation

February, 1994

CREDIT PORTFOLIO: PLAN VS ACTUAL



Source: FM Records, JAA Analysis

February, 1994

EXHIBIT 5A

EXPECTED SCENARIO FOR FONDOMICRO CREDIT PORTFOLIO
YEAR END BALANCES
AMOUNTS IN RD$ Millions

	1993	1994	1995	1996	1997	%
ADEMI	47.5	56.0	65.0	75.0	80.0	55.25%
ADEPE	0.0	1.0	1.5	2.5	3.0	2.07%
ADOPEM	5.8	10.0	15.0	20.0	25.0	17.27%
ASPIRE	0.0	0.0	0.0	1.0	2.0	1.38%
COOP 1	0.0	0.6	1.0	1.5	2.0	1.38%
COOP 2	0.0	0.0	0.6	1.0	1.5	1.04%
COOP 3	0.0	0.0	0.0	0.6	1.0	0.69%
COOP CANDELARIA	0.6	1.0	1.5	2.0	3.0	2.07%
COOP NEYBA	0.2	1.0	1.5	2.0	3.0	2.07%
DD	1.6	0.0	1.0	2.0	2.5	1.73%
ONDESA	1.5	3.0	7.0	10.0	15.0	10.36%
DDI	0.0	0.0	1.0	2.0	3.0	2.07%
NGO 1	0.0	0.0	0.5	0.8	1.0	0.69%
NGO 2	0.0	0.0	0.5	0.8	1.0	0.69%
NGO 3	0.0	0.0	0.5	0.8	1.0	0.69%
NGO 4	0.0	0.0	0.0	0.5	0.8	0.55%
	57.2	72.6	96.6	122.5	144.8	100.00%

NOTE: Assumes aggressive growth.

Source: FondoMicro

EXHIBIT 6

Estimates of Credit Worthy NGOs Proved Too Optimistic

OUTPUTS

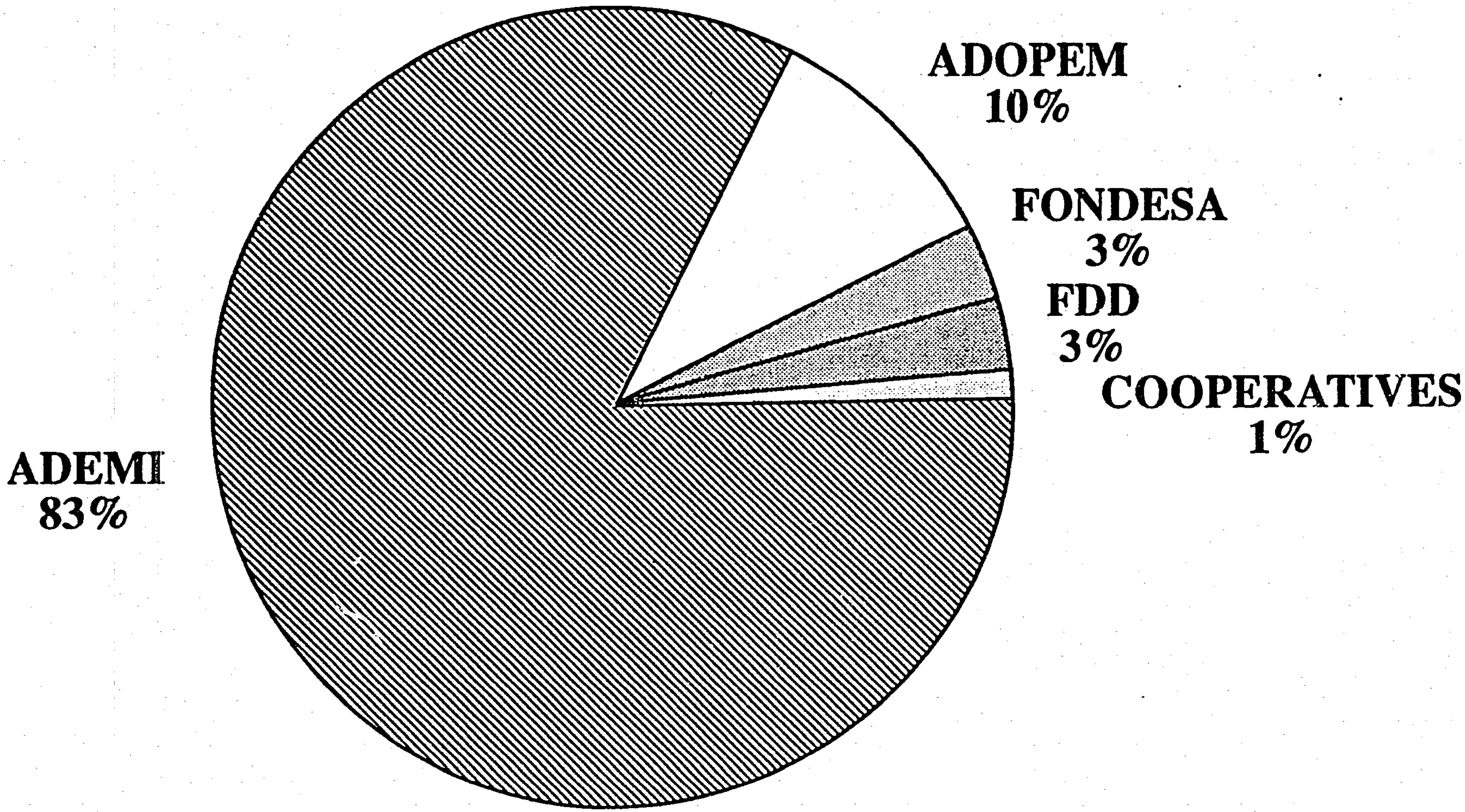
Number of NGOs to Be Approved for Credit, by Year	
Y_1	2
Y_2	4
Y_3	6
TOTAL	12

Number of TA Programs to Be Conducted, by Year	
Y_1	2
Y_2	3
Y_3	3
TOTAL	8

4 Had to Be Credit Worthy and Require Minimal TA in Order to Achieve Targets

Source: Project Paper pg. 21+23, JAA Analysis

FM PORTFOLIO OF LOANS TO NGOS
FEBRUARY, 1994



Source: NGO Interviews, FM Documentation, JAA Analysis

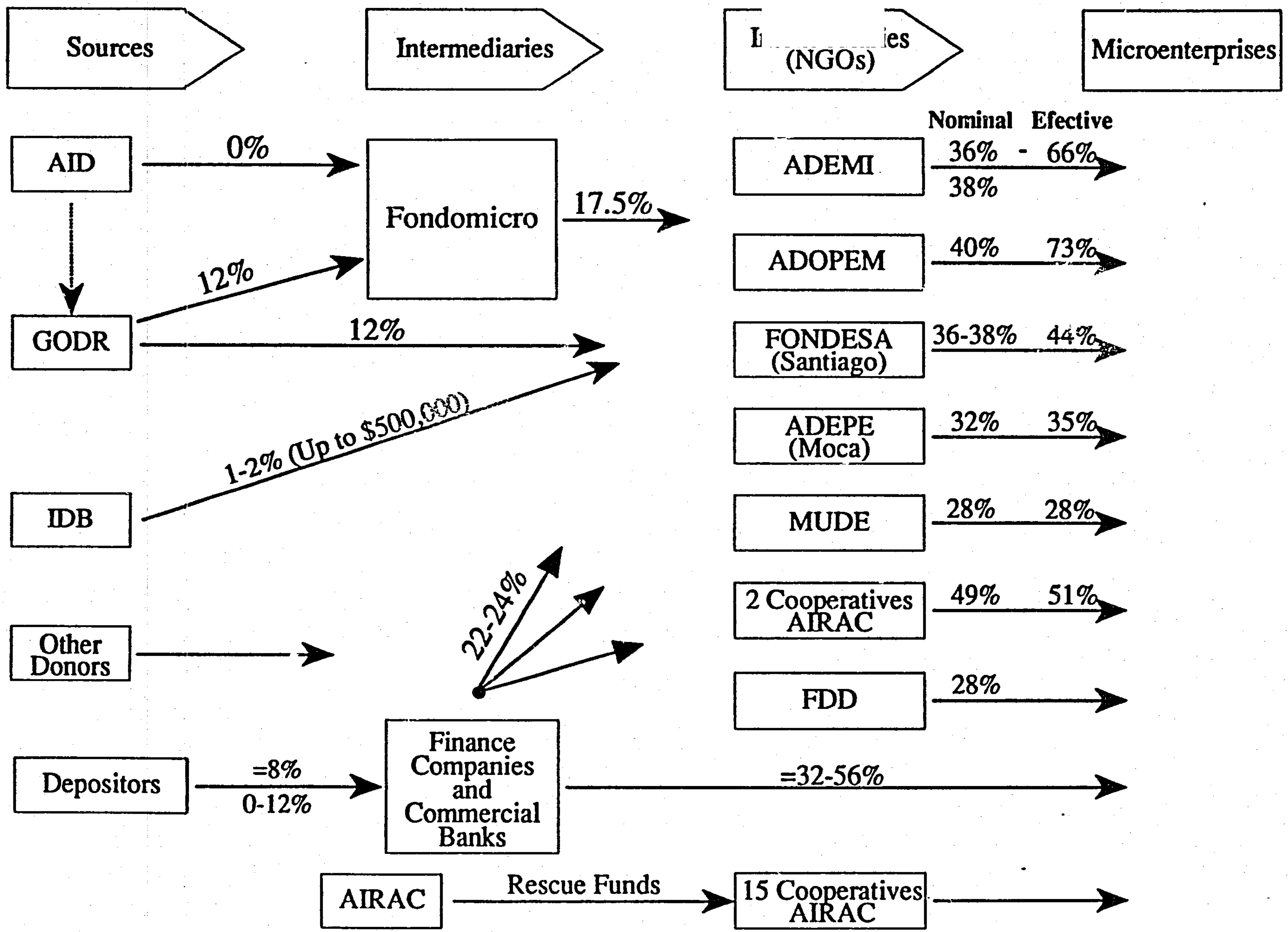
FONDOMICRO CREDIT QUALITY

- Yields Are About 15%
- No Losses Experienced to Date
- No Arrears Currently
- Reserves of 4% Mantained
- FM Credit Review Has Led to Termination of One Client

Source: FM Documentation

February, 1994

Microenterprise F[illegible]g in the [illegible]can Re[illegible]



Source: NGO Interviews, JAA Analysis.

DIRECT TA TO NGOs

Planned: 70 person-months of TA to 3-4 NGOs/year over 7 years

	Actual TA Provided			Credit Results	
	12/91-10/92 Gemini/Horwath	11/92-9/93 FM Interim	12/93 to present FM I.D.	First Credit	Current Approved Credit Line (US$)
ADEMI	0	0	0	6/91	$4,000,000
ADOPEM	2.9	--	--	6/92	$480,000
FDD	10.5	10.1	--	11/92	$280,000 (terminate
Fondesa	4.6	0.44	3.1	12/92	$120,000
Coop. Candelaria	--	0.44	0.3	2/93	$48,000
Coop. Neyba	--	0.22	0.3	10/93	$48,000
ADEPE	1.1	--	0.8	Pending	
ASPIRE	2.6	--	--	Not Qualified	
ADUDELC	2.1	--	--	Not Qualified	
MUDE	--	--	2.3	Pending	
CDD	--	--	*	Not Qualified	
Subtotals	23.8	11.2	6.8	= 41.8 Person-Months of TA to date	

* Initial meetings

Source: Fondomicro Records, JAA Analysis

PLANNED, ACTUAL, AND PROJECTED TA TO NGOs

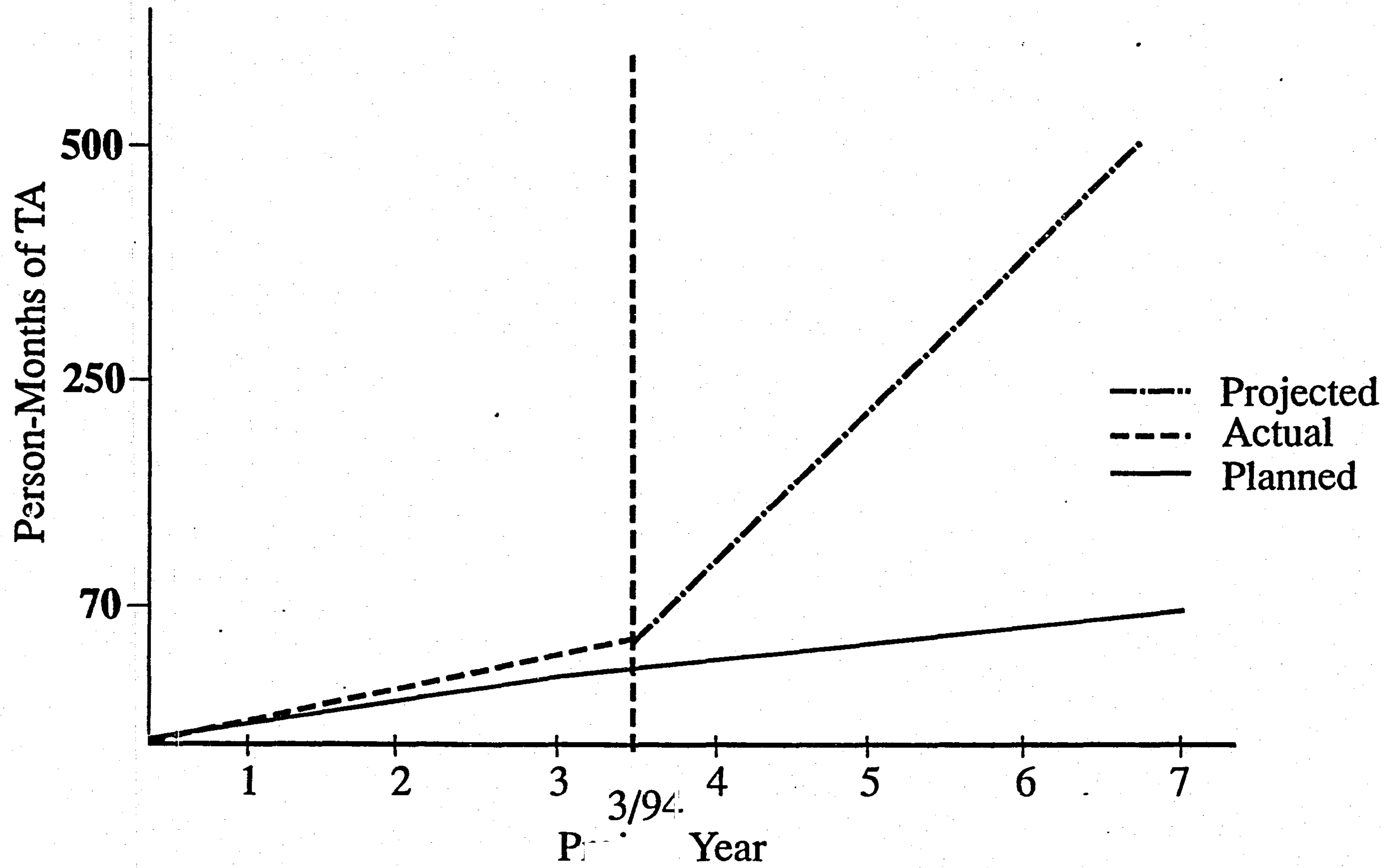


EXHIBIT 12

NGO Feedback on Training + TA	OUTPUTS

Training Courses

Quality: very good to excellent

Future Needs: varied, add courses for Boards of Directors

Technical Assistance

Quality: excellent (by those who want to strengthen financial systems)

Future Needs: ongoing, intensive

Source: JAA Interviews with NGOs — February, 1994

FM Has Had a Major Impact with its Research Program | **OUTPUTS**

FM RESEARCH PROGRAM: MAJOR OUTCOMES

- 3 Major Studies Published; 2 in Process
- NGOs Report Great Usefulness of Studies for Their Programs
- Major Donors Using Studies in Project Design
- Political Parties Now Include Microenterprise Concerns in Platforms
- Conference on Women in Microenterprise Scheduled for Fall, 1994
- Research Has Laid Foundation for Future Policy Reform

Source: Industry Interviews

F‹ ›ruary, 1994

FM Has Provided 3x as Many Computers as Planned | OUTPUTS

COMMODITIES PROVIDED TO DATE IN FM PROJECT

Commodities	Units Planned	Units Actual	Value (US$) Planned	Value (US$) Actual
Vehicles	2	2	51,000	42,905
Motorcycles	2	2		
Office Equipment and Furniture	--	--	91,800	57,787
Computers and Accessories				
-FM			30,000	36,571
Computers	2	8		
Printers		3		
-NGOs			103,000	78,345
Computers	6	23		
Printers		16		
		TOTAL	$276,600	$231,477

Source: Project Paper, Interviews with FM and FM documents

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INSTITUTIONAL STRENGTHNING AT FONDOMICRO

- Board of Directors Plays an Active Role
    - Active Credit Committee
    - Bimonthly Meetings
    - Participation of 4 Major Banks
- Appr ved Administration and Control Procedures
- Approved and Regularly Updated Procedure Manual
- Adequate, Fully Equipped Offices (2,600 sq. ft.)
- Expanded Staff
    - 16 Full-time Staff
    - Decreased Dependency on Key Person with Addition of a Second Experienced Financial Executive
    - More Staff Needed to Handle Portfolio of US$30 million, Estimated:
        - 2-3 More Lending Officers
        - 5-6 Technical Assistance Staff

Source: Interviews with FM and Auditors, JAA Analysis

February, 1994

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Exhibit 16

Purpose Indicators and Current FondoMicro Status

INDICATOR	END-OF-PROJECT INDICATOR	ACTUAL AT END Y3	
Total # NGOs in FM Portfolio	6 to 12	6	
# of ISME Borrowers	2,000 to 10,000	ADEMI	13,621
		ADOPEM	4,000
		FONDESA	322
		FDD	1,650
		CANDELARIA	150
		NEYBA	220

NO. OF ISMEs WITH RELIABLE, RESPONSABLY PRICED ACCES TO CREDIT:

19,963

Source: Project Paper, Interviews with NGOs

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EXHIBIT 17

FM Credit Is Helping to Create Jobs | **GOALS**

EMPLOYMENT DATA: FONDOMICRO PROJECT, 1993

	Jobs Created	Jobs Created or Strengthened
Fondomicro Project[1]	3,060	10,105
Fondomicro NGOs[1]	8,742	37,511
Microenterprise Sector[2]	82,040	843,391
Project as % of Sector	4%	1%

Sources: 1) Fondomicro Data, Interviews with NGOs, JAA Extrapolations for NGOs without data based on ADEMI ratios.
2) Miguel Cabal, "Evolución de las Microempresas y Pequeñas Empresas en la República Dominicana, 1992-1993" (AID/Fondomicro): Santo Domingo, 1993.

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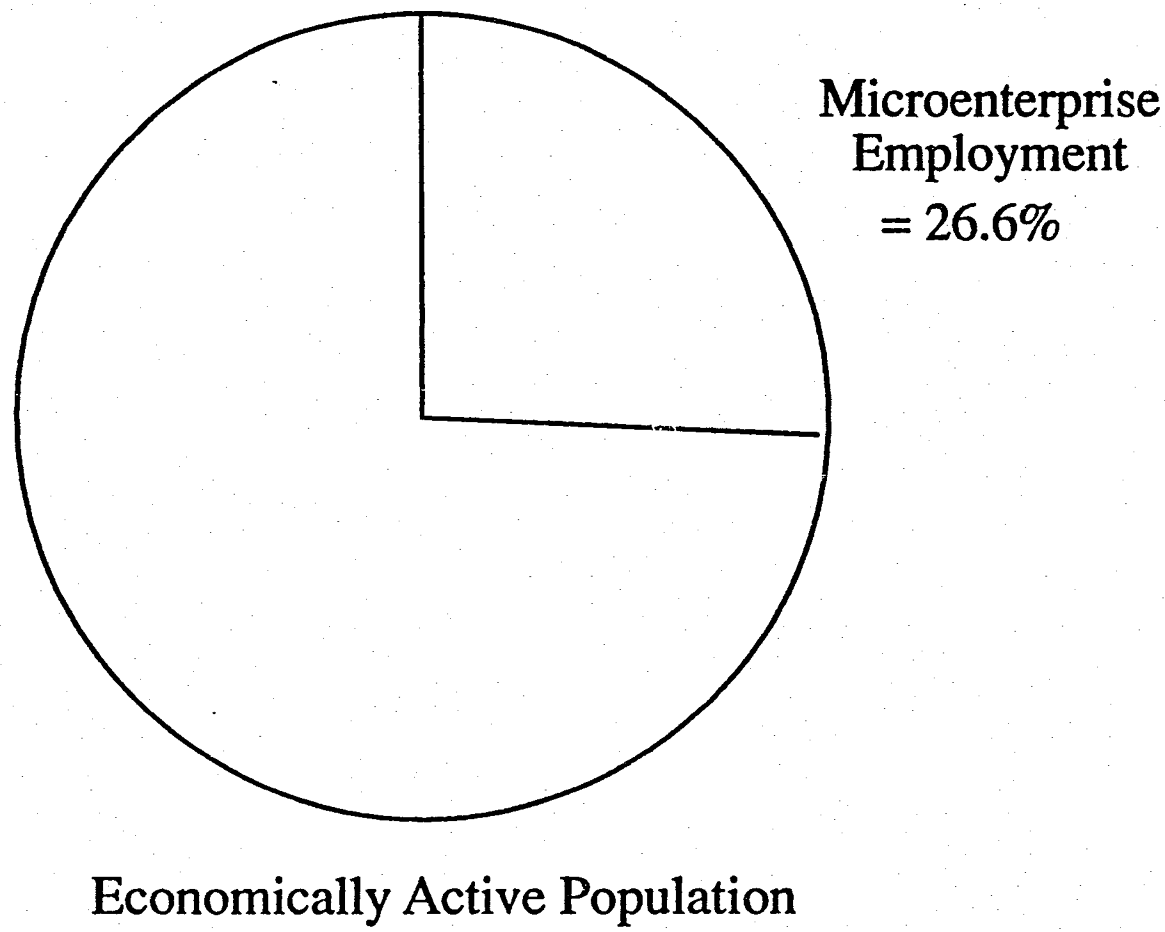
MICROENTERPRISE EMPLOYMENT AS % OF ECONOMICALLY ACTIVE POPULATION



Source: GODR Data, Evolución de las Microempresas, op. cit.

Exhibit 18A

Project Internal Rate of Return Projections

FONDO PARA EL FINANCIAMIENTO DE LA MICROEMPRESA, (FONDOMICRO)

TASA INTERNA DE RETORNO

(EXPRESADO EN MILES DE RD$ PESOS)

Ano	Inversion	Flujo de efectivo	Flujo neto	30%	20%
1991	(14,879,408)	867,603	(14,011,805)	(14,011,805)	(14,011,805)
1992	(20,322,208)	3,093,922	(17,228,286)	(17,228,286)	(17,228,286)
1993	(22,039,108)	6,716,379	(15,322,729)	(15,322,729)	(15,322,729)
1994	(20,264,681)	6,938,000	(13,326,681)	(10,248,218)	(11,101,125)
1995	(11,959,681)	7,555,344	(4,404,337)	(2,607,368)	(3,056,810)
1996		8,217,669	8,217,669	3,739,039	4,749,813
1997		8,945,971	8,945,971	3,131,090	4,311,958
1998		9,746,847	9,746,847	2,621,902	3,908,486
1999		10,627,555	10,627,555	2,199,904	3,549,603
2000	175,208,000	11,596,075	186,804,075	29,701,848	52,118,337
				(18,024,622)	7,917,641

$$= \left\{ \frac{30 - 20}{18{,}024 + 7{,}917{,}641} \times 7{,}917{,}641 \right\} + 20 =$$

$$= \left\{ \frac{10}{25{,}942{,}264} \times 7{,}917{,}641 \right\} + 20 =$$

$$0.00000 \times 7{,}917{,}641 \} + 20 = 23.05\ \%$$

Para el calculo de la TIR, se uso el flujo de efectivo no acumulado y los aportes de AID en RD$, para el proyecto de desarrollo de pequeños negocios.

* ~~Recuperacion de la inversión:~~ **cartera estimada mas el flujo de efectivo al año** 2000 **RD$175,208,000 + 11,563,728**

Source : Sotero Peralto & Asociados

Exhibit 18B

FondoMicro Internal Rate of Return

FONDO PARA EL FINANCIAMIENTO DE LA MICROEMPRESA, (FONDOMICRO)

TASA INTERNA DE RETORNO

(EXPRESADO EN MILES DE RD$ PESOS)

o	Inversion	Flujo de efectivo	Flujo neto	40%	30%
91	(10,000,000)	867,603	(9,132,397)	(9,132,397)	(9,132,397)
92	(14,860,000)	3,093,922	(11,766,078)	(11,766,078)	(11,766,078)
93	(17,200,000)	6,716,379	(10,483,621)	(10,483,621)	(10,483,621)
94	(8,308,383)	6,938,000	(1,370,383)	(978,650)	(1,053,809)
95		7,555,344	7,555,344	3,863,226	4,472,764
96		8,217,669	8,217,669	2,994,519	3,739,039
97		8,945,971	8,945,971	2,325,952	3,131,090
98		9,746,847	9,746,847	1,803,167	2,621,902
99		10,627,555	10,627,555	1,411,339	2,199,904
00	175,208,000	11,596,075	186,804,075	17,720,235	29,701,848
				(2,252,509)	13,430,642
				(2,252,509)	13,430,642

$$= \left(\frac{40 - 30}{2,252,509 + 13,430,642} \times 13,430,642 \right) + 30 =$$

$$= \left(\frac{10}{15,683,151} \times 13,430,642 \right) + 30 =$$

$$(0.00000 \times 13,430,642) + ,30 = 38.56 \%$$

NOTA: Para el calculo de la TIR, se uso el flujo de efectivo no acumulado y los aportes de AID en RD$, para el proyecto de desarrollo de pequeños negocios.

" RECUPERACION DE LA INVERSION: cartera estimada mas el fuljo de efectivo al 2000 RD$175,208,000 + 11,596,075

Source: Sotero Peralto & Asociados

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EXHIBIT 19

Is FM Project in Accord with AID Guidance?	ISSUES

FONDOMICRO PROJECT VS. LESSONS LEARNED BY AID IN MICROENTERPRISE

Lessons Learned	FM Project
Avoid Subsidized Credit	Yes
Include Savings Mobilization	No
Ensure Adequate Cost Recovery and Sustainability	Yes
Policy/Institutional Environment Critical	Yes
Rely on Character Based Lending	Yes
Keep Administrative Costs to Minimum	Yes
Implement Controls on Delinquency	Yes
Avoid "Creating" or "Transforming" Microenterprises	Yes

Source: AID Implementation Guidelines, Draft 8, 1/14/94, p. 14-16, and JAA Analysis

EXHIBIT 20

Does Project Follow Latest AID Guidance?	ISSUES

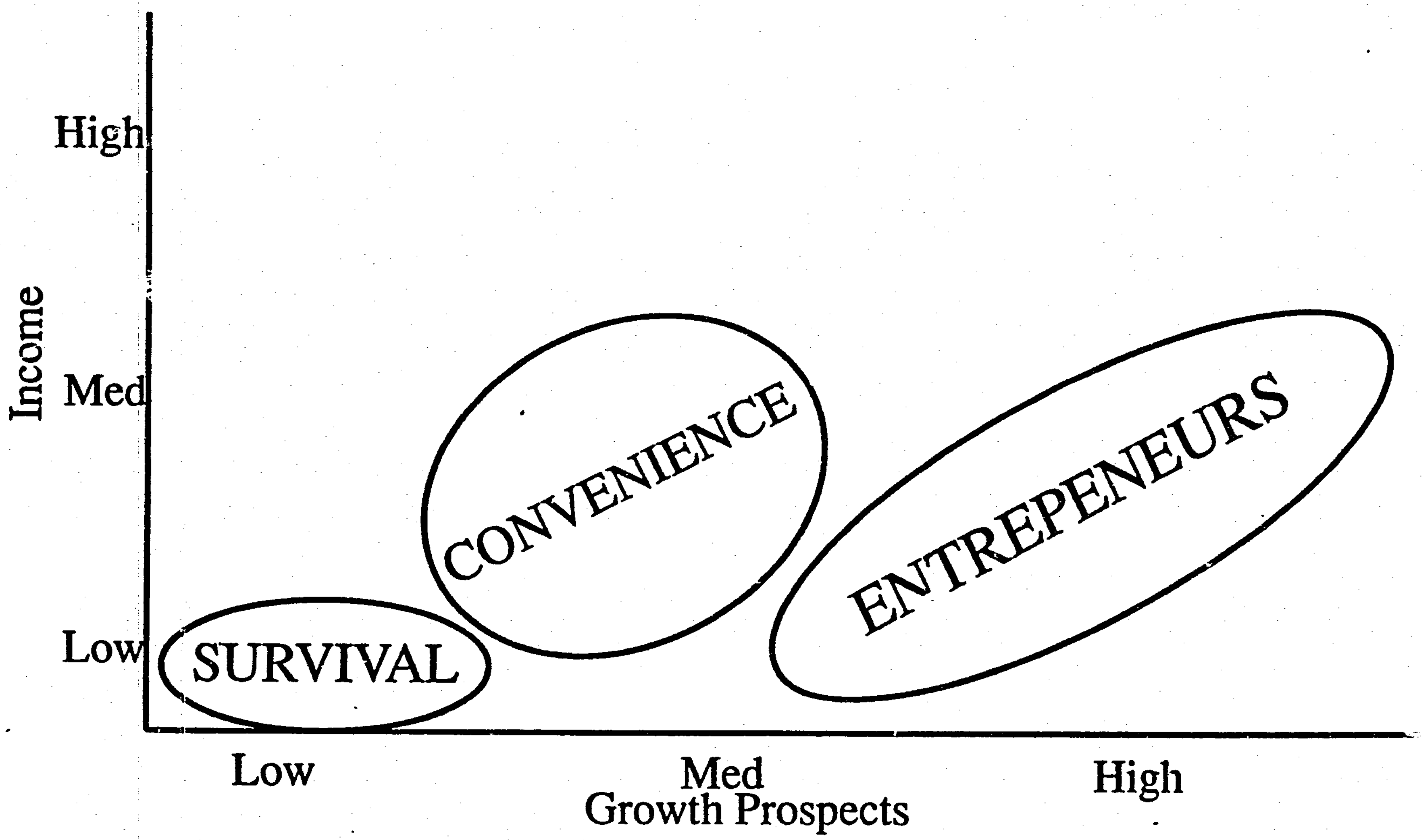
AID GUIDANCE VS FONDOMICRO PROJECT

Aid Guidance	FM Project
• Build Sustainable Viable Fianancial Intermediaries Using:	
* Savings Mobilization	No
* Appropriately High Interest Rates	Yes
* High Repayment Rates	Yes
• Emphasize Financial Services for Established Microenterprises	Yes
• Strengthen Institutional Capacity to Assess Potential Markets	Yes
• Balance Small Business with Workers' Rights	N/A

Source: AID Implementation Guidelines, Draft 8, 1/14/94, p. 16-176, and JAA Analysis

Three Different Microenterprise "Types" Exist

LESSONS



Source: Various Studies, Industry Experts

February, 1994

OECD Suggests 6 Key Issues for M. E. Proyects	LESSONS

OECD Key Issues for Donor Support to Microenterprise:

- Co-ordinate donor support for national policy enviroment
- Ensure open and flexible programs that blend with local conditions and accomodate change
- Respond to local initiatives and channel assistance through self-help groups in amounts that can be readily absorbed
- Build indigenous systems facilitating resource flows throughout the economy
- Expand local projects to national level
- Strengthen existing linkages among entrepreneurs: create microentrepreneur communities

Source: New Directions in Donor Assistance to Microenterprises, OECD, 1993. Fondomicro Evaluation, February 1994.

10 LESSONS FROM RURAL CREDIT

1) Subsidized credit has failed as a solution to rural poverty.

2) Credit is not an efficient instrument to stimulate investment production and the use of new technology in the agricultural sector.

3) Directed credit and the channeling of tied subsidies to loans increases the cost of transaction.

4) Low interest rates and excessive transaction costs have decreased the effectiveness of the financial markets.

5) The capacity to generate rural savings is surprisingly large, and broad participation imposes discipline over the financial intermediary.

6) Loan recuperation is greater in institutions which mobilize deposits .

7) Non-agricultural rural enterprises are an increasingly important source of income for the rural population.

8) The informal financial sector is an useful complement to formal financing and not an obstacle to be eliminated.

9) Equity financing can be a more appropiate incentive for the creation of new agricultural enterprises, including medium or long term indebtedness.

10) It is more effective to develop diverse and competitive financial institutions that can provide sustained, self-sufficient financial services.

Source: Dale Adams, "The Use of Credit as Selection of Rural Problems" Lessons from Four Decades of Experience in Savings and Credit Population Semi-Urban and Rural. Secretary of Finance and Public Credit (México). 1993

February 1994

FAC[illegible] SUCESSFUL RURAL FINANCIAL INSTITUTIONS

Environment: 1) Stable Economy

2) Non-controlled interest rates

Financials: 1) Mantain satisfactory financial registers

2) Set clear objectives to assist low-income producers

3) Manage with profits

4) Apply positive rates to loans

5) Achieve a high rate of loan recuperation

6) Use efficient approval systems and rapid credit processing

7) Offer savings services

8) Apply incentives and penalties to interest rates for early or late payment

9) Automatically renew credit to good borrowers

10) Do not depend exclusively on traditional guarantees to secure the loan

Organization: 1) Attain significant levels of participation in the target market

2) Use social pressure techiques in loan approval and in some cases for recuperation

3) Attract highly trained staff

4) Use incentives, promotions, and bonuses to staff for adequate assurance of loan recuperation and savings promotion.

Source: Successful Rural Finance Institutions, World Bank. Discussion Paper #150, 1992

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